THE WEATHER — PARIS: Wednesday, partly cloudy. Temp 4-9 (39-48). LONDON: Wednesday, cloudy. Temp. 4-10 (39-50). CHANNEL: Slight. ROME: Wednesday, overcast. Temp 10-14 (50-57). FRANKFURT: Wednesday, partly cloudy. Temp 3-7 (37-45). NEW YORK: Wednesday, cloudy. Temp 2-6 (36-43).

ADDITIONAL WEATHER DATA — PAGE 22

INTERNATIONAL Herald Tribune

Published with The New York Times and The Washington Post

No. 30,721 ** PARIS, WEDNESDAY, NOVEMBER 25, 1981 Established 1887

United Press International

Crew members arriving Tuesday in Norway after being taken off the oil rig Transworld 58.

Bonn Meetings End With No Shift on Issues

From Agency Dispatches

BONN — Chancellor Helmut Schmidt and Soviet President Leonid I. Brezhnev ended talks Tuesday with little indication the two sides had budged from their positions on arms control or other East-West issues.

Spokesmen for both sides said they hoped the three days of talks had created an atmosphere leading to an improvement in East-West relations and concrete results in U.S.-Soviet arms negotiations due to begin Monday in Geneva.

But the two sides stuck by their public positions, with the West Germans supporting plans to deploy U.S. Cruise and Pershing-2 missiles if the Geneva talks fail to produce agreement by the fall of 1983.

There was also no sign that Mr. Brezhnev was prepared to accept U.S. proposals for eliminating medium-range nuclear missiles from Europe.

Mr. Brezhnev and Mr. Schmidt ended their fourth meeting late Tuesday, and afterward the Soviet leader told reporters that "all efforts must be undertaken ... to secure peace."

"The climate of détente and trust must be restored," he said.

Before the final session of talks, Mr. Schmidt said he was convinced that the Soviet leadership failed to understand the views and intentions of the Reagan administration.

Mr. Schmidt told members of his Social Democratic Party that he had spent "a significant part" of his talks with Mr. Brezhnev trying to convince him of U.S. good will.

"It is more than clear that the Soviet leadership still cannot properly evaluate the intentions of the American leadership and its leaders," he said. "We have, I repeat, tried for our part to clear away serious Soviet doubts about the credibility of the American position and of the readiness for negotiations of the American government."

Angry exchanges between West German spokesman Kurt Becker and Soviet spokesman Leonid Zamyatin on Tuesday reinforced the impression that the two leaders had made little progress.

Mr. Becker said at a joint press conference that the chancellor tried hard at a private meeting with the Soviet leader Monday night to persuade him that President Reagan was seriously interested in disarmament negotiations.

"It has become clear that the Soviet leadership cannot correctly assess the intention of the American administration," Mr. Becker said.

Mr. Zamyatin, a senior Communist Party official who regularly acts as spokesman for Mr. Brezhnev on his foreign trips, immediately contradicted Mr. Becker. "If the West German side has drawn such a conclusion from the talks, then it is wrong in its assessment of the Soviet position toward the United States," he said.

His icy comment was seen as confirmation that Mr. Schmidt's efforts to act as interpreter of U.S. policy made little impression on his Kremlin guests.

Mr. Schmidt had met four times with Mr. Brezhnev since the president arrived in Bonn late Sunday for his first visit to the West since the Soviet intervention in Afghanistan in December, 1979.

United Press International

Chancellor Helmut Schmidt offered his hand Tuesday in Bonn to President Leonid I. Brezhnev. Watching were Foreign Ministers Andrei A. Gromyko, center left, and Hans-Dietrich Genscher.

Mr. Brezhnev was to fly back to Moscow on Wednesday.

Before Mr. Schmidt's appearance before the Social Democratic parliamentarians, Mr. Becker told reporters the chancellor "has actually taken over the function of an interpreter" of U.S. policy for the Soviet guests.

"The chancellor hopes that the secretary-general [Brezhnev] will receive the United States' willingness to negotiate with greater trust," Mr. Becker added.

In addition, leaders of West Germany's two major conservative parties, the Christian Democratic Union and the Christian Social Union, said they had urged cooperation with the Reagan administration during meetings with Mr. Brezhnev on Tuesday.

The meetings with the party leaders, including the Social Democratic chairman, former Chancellor Willy Brandt, took place at Schloss Gymnich, the government guesthouse 18 miles (30 kilometers) from Bonn where Mr. Brezhnev was staying.

Bavarian Premier Franz Josef Strauss, chairman of the Christian Social Union and unsuccessful candidate for chancellor in 1980, said after his meeting that he had told Mr. Brezhnev that U.S. policy under Mr. Reagan was more predictable than it had been under his predecessor, Jimmy Carter.

The Christian Democratic chairman, Helmut Kohl, who met with Mr. Reagan in Washington last month, said he advised the Kremlin leader that the United States wanted to take firm measures toward reducing the level of weaponry. He said he called on the Russians "to take a step toward the U.S.A."

Offer on Missiles

Mr. Reagan has offered to forgo deployment of Cruise and Pershing-2 missiles, set to begio in late 1983, if the Russians dismantle their SS-20 rockets already in place.

Mr. Brezhnev has rejected Mr. Reagan's offer because it leaves untouched French and British nuclear forces as well as U.S. land, air and sea elements based near the borders of the Soviet Unioo.

Pravda Cuts Schmidt Afghanistan Remarks

The Associated Press

MOSCOW — Pravda on Tuesday published West German Chancellor Helmut Schmidt's dinner toast for President Leonid I. Brezhnev, but left out his references to Afghanistan and to Soviet superiority in medium-range missiles.

The text, labeled as "full" by the daily Tass press review, was published on page 2 of Pravda, along with the full speech made by Mr. Brezhnev during a dinner to Bonn on Monday night.

Pravda left out a passage in which Mr. Schmidt said that Third World countries "expect us to respect their political and cultural independence. This also applies to the wish of the Afghan people for an independent and nonaligned Afghanistan, free from foreign troops."

The Soviet Union has about 85,000 troops in Afghanistan.

Also omitted was Mr. Schmidt's assertion that the Soviet Union, by deploying SS-20 missiles, had upset the military balance in Europe, thus prompting the Western alliance's decision to modernize its own medium-range capability.

The Soviet Union insists that there is a "rough parity" between East and West in medium-range missiles.

Pravda also cut out Mr. Schmidt's phrase that "we share President Reagan's wish that all medium-range missiles in Europe be dispensed with on both sides," and a reference to the Soviet Union's use of foreign currency, "which is oeeded, for instance, for the purchase of grain."

Oil Rig Adrift As Gales Hit The North Sea

From Agency Dispatches

LONDON — Gale-force winds churned 40-foot waves through the North Sea on Tuesday, triggering widespread flooding in Denmark and Germany and setting a storm-battered American-operated oil rig adrift off the Scottish coast.

At least two persons were killed as the winds lashed ships in the area, and ferry services were severely hampered.

The oil rig, the Transworld 58, midway between Norway and Scotland, broke away from its anchors in waves 40 feet (12 meters) high. Hamilton Brothers, the British owners, said it was a floating rig and not a fixed one and would be taken in tow as soon as the weather improved. Forty-four men were taken off.

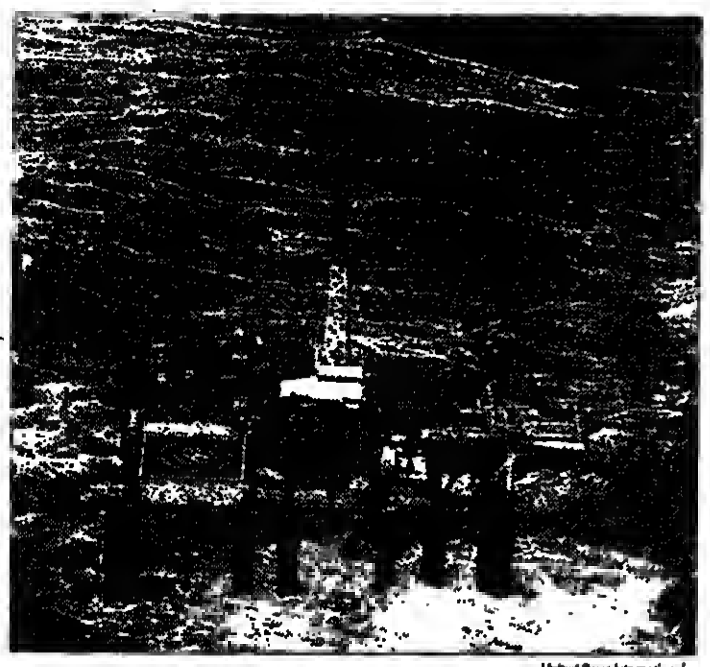
Thirty miles to the north, the Norwegian rig Phillips SS, with one of its anchors out of service, lost another in the storm but remained at its location, a spokesman for the owners, Phillips Petroleum Co., said. He said 18 of the 112 men aboard had been taken off.

The two rigs were in the same area where the Norwegian accommodation rig Alexander Kielland capsized in March last year with the loss of 123 lives.

In Denmark, 1,500 people were evacuated from their homes in and around the Jutland port of Esbjerg after a general flood alert. The roofs of about 1,000 houses were blown off and falling trees blocked railways.

In Germany, the worst gales and tides in five years lashed the northern coast, flooding a wide area of the lowland plain, uprooting trees and snarling road and rail traffic.

In Hamburg, authorities closed the busy port for five hours but reopened it in the late afternoon when the water and winds subsided.



United Press International

The American-operated oil rig Transworld 58 adrift in the North Sea after breaking away from its anchors amid 40-foot waves.

Reagan's Victory on Funding Could Be Politically Costly

By Hedrick Smith
New York Times Service

WASHINGTON — In his effort to cut the federal budget, President Reagan has switched from his long and careful courtship of Congress to the tactic of confrontation and has won a short-run political victory that may also have a long-run political price.

With his advisers convinced that the public still strongly supports his efforts to curb federal spending and that the president needs to get back in control of the budget process, Mr. Reagan on Monday not only vetoed what he called a "budget-busting" interim funding resolution, but also technically "shut down" part of the government.

After a series of political setbacks this fall, ranging from worsening economic forecasts to embarrassing revelations about his official family, Mr. Reagan's actions were intended to take the offensive and put the focus back on the budget.

The actions had Democrats complaining about political "theatrics." And some Republicans angrily contended that they had been misled into believing that the White House would accept the measure adopted by Congress on Sunday. Others claimed that White House had lured Congress into passing the spending measure to set up a confrontation that would let Mr. Reagan use the legislature as a whipping boy.

In using these tougher tactics, Mr. Reagan not only runs the risk of making some members of Congress, including leading Republicans, angry now, but also of creat-

NEWS ANALYSIS

ing scars that will hamper his future efforts at cutting the budget — for 1983 and 1984, as well as 1982. But the White House felt it was necessary to take the risk, as much to show its muscle as to get the particular spending levels it sought.

For nine months, Mr. Reagan has shown Congress his genial side, joking with members, swapping stories and skillfully wooing their votes. On Monday, Mr. Reagan showed Congress his other side when he turned to the tough veto politics that he used so extensively as governor of California.

And so, in the tradition of former chief executives like Harry S. Truman and Gerald R. Ford, Mr. Reagan put the blame for a governmental deadlock on Congress.

Mr. Reagan's supporters were delighted with the immediate result — the admission by Democrats that they could not have overridden the veto and the setting of a Dec. 15 deadline for Congress to approve the regular appropriations bills for the 1982 fiscal year that began on Oct. 1.

"The president is drawing a line in the sand on the spending issue that will help him on the hustings," said Richard Wirthlin, Mr. Reagan's pollster. "There is still very strong public support for reducing government spending."

Different Views

Although both Republicans and Democrats in Congress professed shock at the president's tactics, saying that the $428-billion interim funding measure adopted Sunday exceeded Mr. Reagan's target by only $2 billion at worst, the Reagan camp cast the confrontation in a different light, insisting that more was at stake than the dollar difference.

"What really is at issue here is whether the president exerts control over the budgetary process, and that transcends the issue of amounts," Mr. Wirthlin said. "The president had to send a signal to Congress that he was determined to control the budget process."

The mood in Congress was so negative that Robert H. Michel of Illinois, the House Republican leader, was eager to have members leave for the Thanksgiving recess. "They're all hot now," he said. "You've got to let them cool off."

Sen. Mark O. Hatfield, Republican of Oregon, chairman of the Senate Appropriations Committee, said he was "offended" and outraged at the White House allegation that the congressional measure exceeded the president's target. "We did not engage in chicanery and phony numbers," he retorted.

Other Republicans said they felt that the White House had switched signals Sunday afternoon after conveying the impression that the president would go along with the measure developed in a Senate-House conference that morning. Many were irked that the president had put so much blame on Congress.

"It looks like the White House wanted a confrontation," said a Republican senator who supported the president and spoke on condition that he not be quoted. "The White House wanted someone else to share the blame for the economy. But they're wounding a lot of their own friends in the process.

"The very short-range advantage of exploiting the situation is hardly going to be worth the long-term price of losing the glow of cooperation," the senator added.

But others say that members of Congress, as pragmatists, will respond both to the president's effective exercise of power and to voter opinion. "When you get out into the country," observed Rep. Michel, "the president is still a lot more popular than the Congress."

According to this view, the real test will be whether Mr. Reagan can either get enough additional budget cuts to make his economic program effective or, failing that, can build a record this winter and next spring to persuade the voters in 1982 that it was Congress, not he, that failed at the critical moment.

The Associated Press

A customer found the U.S. passport office in San Francisco closed after President Reagan ordered federal agencies to cease all nonessential operations during a dispute over funding.

Liberal to Try In Belgium to Form Cabinet

Reuters

BRUSSELS — Willy De Clercq, the Flemish Liberal leader, accepted King Baudouio's request Tuesday to form a new government and said he would try to set up a center-right coalition grouping the Liberals and Social Christians.

He said that he had accepted because Belgium urgently needed a government following the inconclusive general elections on Nov. 8.

Mr. De Clercq, 54, a former finance minister, said that he would meet the heads of four political parties soon to see whether they would be ready to join in a coalition.

The four parties are his own Flemish Liberals, the French-speaking Liberals of Jean Gol, the Flemish Social Christians of Leo Tindemans and Paul Van Den Boeynants' French-speaking Social Christians.

Mr. De Clercq's first problem is to convince the Social Christians to join the coalition. According to political sources, they are tempted to stay out of the government after their heavy losses in the elections.

The Flemish Liberal Party and the French-speaking Liberal Party made the most gains in the parliamentary elections. Mr. De Clercq was asked by the king to form a new government after former Premier Wilfried Martens, a Flemish Social Christian, turned down a similar request.

A member of the European Parliament, Mr. De Clercq has been a strong advocate of more stringent economic policies to tackle Belgian's severe economic problems.

His party and the French-speaking Liberals together command 52 seats in the Chamber of Deputies, ranking third after the Social Christians and the Socialists, which each have 61 seats.

Repeated Disagreements

Both the Flemish and the French-speaking wings of the Social Christians lost seats during the recent elections. Since October of last year, Belgium had been governed by center-left coalitions of Social Christians and Socialists.

Repeated disagreements within these coalitions had prevented coherent measures to deal with the nation's soaring public sector deficit, heavy balance of payments deficit and record unemployment.

Belgium's previous government, a Social Christian-Socialist coalition headed by Flemish Social Christian Mark Eyskens, collapsed in September after a disagreement over Socialist demands for more state aid to the Walloon steel industry.

3 Cambodian Resistance Groups Move Toward Coalition Formula

By William Branigin
Washington Post Service

BANGKOK — Three Cambodian groups resisting the Vietnamese occupation of their country have moved closer to forming a loose coalition government that would allow the non-Communist elements to receive foreign arms aid, a leading Singaporean official said here Tuesday.

Sinnathamby Rajaratnam, Singapore's deputy premier in charge of foreign affairs, said at a news conference that leaders of the Communist Khmer Rouge, the anti-Communist Khmer People's National Liberation Front, and a group led by Prince Norodom Sihanouk, the former Cambodian head of state, had accepted a Singaporean proposal that each faction retain its own identity under the coalition government.

Mr. Rajaratnam said Singapore would be willing to give arms aid to such a coalition, but he stressed that "other democratic countries" should also contribute if they want to see a "non-Khmer Rouge government" replace the current Vietnamese-installed regime in Phnom Penh.

Mr. Rajaratnam's remarks and a statement issued by Singapore's embassy in Bangkok marked the first time that a member of the Association of Southeast Asian Nations (ASEAN) has publicly expressed willingness to aid Cambodian resistance groups militarily.

A Western diplomat said that the remarks signaled "an obvious turning point," but that it was not yet clear whether Singapore's position was endorsed by all four other members of ASEAN — Indonesia, Malaysia, the Philippines and Thailand.

Explaining his written statement, which calls for a coalition to exert "military pressure" on Vietnam to withdraw its troops from Cambodia, Mr. Rajaratnam said the other ASEAN countries had given Singapore "a mandate to pursue a coalition government." Singapore is currently chairman of ASEAN.

In addition, although Mr. Rajaratnam indicated that ASEAN would solicit military aid for the ooo-Communist Cambodian groups from Western countries, including the United States, Washington has not shown any sign of dropping its opposition to such assistance.

In Tam, Prince Sihanouk's representative in Bangkok; Mr. Son Sann; and two Khmer Rouge leaders, Khieu Samphan and Ieng Sary, had met individually and jointly over the past two days with Mr. Rajaratnam, Singaporean Foreign Minister Suppiah Dhanabalan and Thai Foreign Minister Siddhi Savetsila, according to the Singaporean statement.

It said the Cambodian leaders discussed the work toward a coalition by an ad hoc committee set up after they signed a joint declaration in Singapore in early September calling for unity in the battle against the Vietnamese occupation. Hanoi's troops invaded Cambodia in December, 1978, deposed the Khmer Rouge regime led by Pol Pot and replaced it with a client government.

Although the United Nations still recognizes the Khmer Rouge regime, known as Democratic Kampuchea, as Cambodia's legal government, most countries shun contact with it because of its record of brutality, mass murder and destruction during the nearly four years it held power.

To improve the image of Democratic Kampuchea and put more pressure on the Vietnamese to withdraw, ASEAN and Western countries have been promoting a coalition involving Prince Sihanouk and Mr. Son Sann.

However, Mr. Son Sann has balked, fearing that association with the Khmer Rouge would

(Continued on Page 2, Col. 2)

INSIDE

UN Experts Fail to Verify or Refute Charge of Poison Use in Asian War

By Bernard D. Nossiter
New York Times Service

UNITED NATIONS, N.Y. — A group of United Nations experts says that it can neither verify nor refute charges that Communist forces have used poisonous chemicals in Southeast Asia.

Secretary-General Kurt Waldheim was due to report Tuesday that his team of five specialists "found itself unable to reach a final conclusion as to whether or not chemical warfare agents had been used."

The study says that refugees from Laos and Cambodia, who were interviewed in Thailand, "related stories similar to those appearing" in documents submitted by the the United States. The United States cootended that chemical attacks, which villagers described as clouds of "yellow rain," caused nausea, vomiting, diarrhea and death.

U.S. authorities say that they have collected samples of leaves, stems, water and rocks from the sites of the attacks and that the samples bear traces of deadly toxins.

The UN report says that "all the cases interviewed related alleged chemical attacks which occurred several months earlier, and consequently the group was unable to detect signs and symptoms which would be suggestive of exposure to chemical warfare agents."

Blood and urine tests on refugees who said that they had walked through a contaminated area 23 days earlier "yielded no significant abnormalities," according to the report. The team also interviewed three doctors in the refugee camps, and none said that they had "come across cases which could be attributed to chemical agents."

The UN group said that it had been given "physical samples" — a leaf, a stem and some powder — that were said to be linked to the use of chemical weapons. These are undergoing laboratory analysis, the document says. But no firm conclusioo can be drawn from the samples, the report says, because there is no way of determining where they were found.

The chairman of the group was Maj. Gen. Esmat A. al-Ezz, an Egyptian doctor and a specialist in chemical and radiological defense. Reached by telephone in Cairo, Gen. Ezz said that the leaf and stem sample had been given to the team by an American working for a voluntary agency that coordinates medical care in Bangkok. He said that an anonymous note was attached to the material. The powder came from a refugee, he said.

The report implies that the inquiry should be continued. It said that the team hoped "an appropriate procedure will be devised in the future for the impartial collection and analysis of any samples." But in order to establish whether poisonous substances have been used, the report says, the team "would require timely access to the areas of alleged use."

The United States and other nations hope to gain General Assembly approval for a resolution extending the investigation's life.

The UN group visited three camps in Thailand from Oct. 31 to Nov. 10. The team interviewed 28 refugees and three doctors. It is evident from the findings that the experts believe the issue will go unresolved until they can visit sites in Cambodia, Laos and Afghanistan, where chemical attacks are said to have occurred.

The Laotian government has told the United Nations that it rejects the inquiry. Pakistan has said that the experts can visit Afghan refugees there, but its letter arrived at the end of October, too late for the report.

Chemical warfare was outlawed by a 1925 treaty and biological weapons under a 1975 coovention. The United States and the Soviet Union signed both documents.

Israeli Cabinet Facing Dilemma On Reply to 4 European Nations

By William Claiborne
Washington Post Service

JERUSALEM — A statement by four European countries linking their participation in a Sinai peacekeeping force to peace initiatives that Israel has already rejected has created a dilemma for the government of Prime Minister Menachem Begin just as his nation is apparently nearing completion of a strategic cooperation agreement with the United States.

Noting the U.S. State Department's acceptance Monday of the European declarations, Israeli officials said Tuesday that they expect the Reagan administration to begin applying pressure on Mr. Begin to drop his objections and allow the formation of the U.S.-sponsored peacekeeping force, which is supposed to patrol the Sinai when Israeli forces complete their withdrawal next April 25.

But when the Israeli Cabinet meets on Sunday to decide whether to disqualify Britain, France, Italy and the Netherlands from the force, it will be doing so

NEWS ANALYSIS

in the context of warnings from Mr. Begin that public "contradictions" of the Camp David peace process rule out participation in the Sinai force.

While the Cabinet could choose to focus its attention only on the relatively innocuous initial declaration by the four European nations and ignore the accompanying statements, Israeli government sources said that would not be the case.

"We are not singling out this document or that document. The government will consider the whole thing and give equal weight to all the statements," an official said.

Given that constraint, Israeli sources said, it will be difficult for the Cabinet to find a way to paper over the offensive clauses in the four nations' accompanying declarations that specifically reaffirm the Venice Declaration of June, 1980, and its tenet that the Palestine Liberation Organization must be involved in a comprehensive peace agreement.

The only vaguely objectionable clause in the original declaration by the four nations stated that joining the force will not exclude them from participating in another peace arrangement, meaning one outside the Camp David framework. Drafted in close coordination with the United States, that declaration is understood to have been acceptable to Israel as recently as Sunday.

Even a supplementary declaration issued Monday by the 10 European Economic Community nations that contained a reference to Palestinian self-determination conceivably could have been grudgingly tolerated by the Cabinet in the face of intense U.S. pressure, Israeli sources suggested.

But the statement made Monday by Britain, France, Italy and the Netherlands flew in the face of repeated Israeli warnings made since Nov. 4 that any official mention or promotion of peace initiatives that compete with the Camp David accords would be enough to disqualify the European nations from being part of the Sinai force.

Low-Key Reaction

Israel's official reaction to the European statements has been relatively low-key, apparently in anticipation of attempts by the Reagan administration to find a compromise solution to the Israeli-European standoff.

The only official reaction to the EEC statements was a Foreign Ministry statement that the Cabinet will "decide" on European participation in the Sinai force and that the EEC declarations "would seem to be in contradiction to the Camp David agreements."

While no Israeli officials were willing publicly to acknowledge a link between the muted Israeli response and the negotiations on U.S.-Israeli strategic cooperation, they conceded that the talks are at a critical stage. Defense Minister Ariel Sharon is scheduled to visit Washington at the end of the month to meet with U.S. Defense Secretary Caspar W. Weinberger, and it is expected that Israel and the United States will sign a "memorandum of understanding" on strategic cooperation.

The dilemma facing Mr. Begin on Sunday will be how to express Israel's indignation over the EEC statements, which are viewed here as a result of Arab pressure, without worsening U.S.-Israeli relations and possibly jeopardizing the agreement on strategic cooperation.

The Cabinet could find a way around the problem by deciding officially to regard the four nations' supplementary documents as purely internal statements for the benefit of their respective parliaments. But if it chooses to treat the statements as official documents, as Israeli officials indicted it would, then the Cabinet would appear to leave itself with little room for maneuvering.

Australia Offers Troops

CAIRO (Reuters) — Australia told Egypt on Tuesday that it was ready to join the peacekeeping force, the Foreign Ministry announced. Colombia, Fiji, Uruguay and the United States have also promised to contribute to the force.

Saudi Plan Is Placed On Arab Talks Agenda

United Press International

FEZ, Morocco — Arab League foreign ministers on Tuesday ended three days of talks on an agenda for the 12th Arab League summit conference and officially placed the eight-point Saudi peace plan for the Middle East before the Arab heads of state.

Moroccan Foreign Minister Mohammed Boucetta said at a news conference that the Saudi proposal, submitted in August by Crown Prince Fahd, had been put on the agenda without any changes or amendments.

"Yes, there is a proposal which was agreed upon without any discussions," he said. "There was no opposition to the formula which was submitted by the agenda committee in agreement with the heads of delegations. The plan will be submitted with its eight points as it is and with the formula agreed to to the summit."

The Saudi foreign minister, Prince Saud al-Faisal, said only that the agenda committee had completed its work and that the plan was to be discussed by the Arab heads of state.

In his plan, made public last August, Prince Fahd called for Israeli withdrawal from Arab territory occupied since the 1967 war, including Arab areas of Jerusalem; removal of all settlements that Israel has set up in occupied territories since 1967; recognition of the rights of Palestinians to repatriation, and compensation to those who choose not to return; the establishment of an independent Palestinian state with Jerusalem as its capital; and the recognition of the right of all states in the region to live in peace.

Other Arab foreign ministers refused to comment after the meeting.

Libya Still Plans Chad Merger

FEZ, Morocco (AP) — Libya's troop withdrawal from Chad has not altered its determination to merge with that country, Libyan Foreign Minister Abdelaati Obeidi said Tuesday.

"The merger was part of a joint communiqué of the two governments, and it specified that any implementation will depend on approval by the governments and peoples of the two countries," he said. "The situation is exactly the same, but there has been no move toward implementation."

Libya sent about 10,000 troops into Chad a year ago to help President Goukouni Oueddei fight rebels loyal to the former defense minister, Hissène Habré. Libya's withdrawal of the troops was announced earlier this month. Mr. Obeidi said Mr. Goukouni asked for the withdrawal "under political pressure from the French and U.S. governments." He added, "We do not regret withdrawing, but we regret the destruction of everything we achieved [in Chad]. Civil war is not far off."

Africans Ask U.S. Aid

WASHINGTON (Reuters) — The Organization of African Unity has asked the United States to aid the peacekeeping force that the OAU is sending to Chad, the State Department says. A department spokesman on Tuesday said the request was made by Kenyan President Daniel Arap Moi in a letter to President Reagan.

Plan Offered On Cambodia

(Continued from Page 1)

doom efforts to gain popular support in Cambodia. He therefore has put forward tough conditions for joining a coalition, insisting on controlling a majority of government portfolios, including the premiership, and demanding the self-exile of "tainted" Khmer Rouge leaders.

Now the main obstacles have been addressed essentially by switching the basis of the union from a traditional coalition to a structure that more closely resembles a "government of national unity" of a nation at war, diplomatic sources said.

Tuesday's statement said the three groups "accepted a Singapore proposal, supported by Thailand, that the coalition government of Democratic Kampuchea to be established should, at this juncture of the struggle, be one in which each faction would retain its identity and be free to propagate its own distinctive political program and philosophy for the future of Cambodia."

The statement said Singapore also proposed that "this loose coalition government" consist of a head of state or president, a premier, a deputy premier and three ministers representing each of the three groups. The three ministers would be responsible for coordinating such matters as defense and information.

Singapore further proposed that if the Vietnamese withdrew, the coalition would "be automatically dissolved" to pave the way for a new government chosen under elections supervised by the United Nations.

A B-52 drops its load of 500-pound live bombs on the western desert in Egypt.
United Press International

B-52 Bombing Display Ends U.S. War Games in Egypt

The Associated Press

WADI NATRUN, Egypt — American B-52 bombers, flying nonstop from the United States, hit targets Tuesday in the western desert at the end of the Egyptian phase of the Bright Star war games that cost more than $50 million.

In what was believed to be the biggest public overseas display of U.S. fire power since the Vietnam war, the six B-52s joined U.S. A-10 Thunderbolts, F-16 fighters and Cobra helicopters in attacking targets in the desert 72 miles (115 kilometers) northwest of Cairo.

The B-52s refueled once over the Atlantic in their 15-hour, 7,500-mile flight from Minot and Grand Forks bases in North Dakota. Flying in single file, at only 600 feet over the desert, they each dropped 27, 500-pound bombs on their targets.

U.S. Senate Votes to Soften Law On Bribery of Foreign Officials

By John M. Berry
Washington Post Service

WASHINGTON — The Senate has voted to soften the provisions of the Foreign Corrupt Practices Act because American firms claim they have been losing business abroad as a result of the law.

The act, passed in 1977 in the wake of bribery scandals involving several major U.S. corporations, still would prohibit bribery of foreign government officials. But company executives no longer would be subject to possible criminal prosecution on the basis only that they had "reason to know" their firm was paying bribes.

Instead, they could be hit with criminal penalties only if they authorize bribes "expressly or by a course of conduct."

Turned Down Business

Sen. John Heinz, Republican of Pennsylvania, chairman of the Senate Banking Committee, said there have been cases in which U.S. corporations turned down millions of dollars of business in countries because they were afraid of prosecution under the "reason to know" clause. A U.S. company, for example, may not know for sure that an agent it hires in another country would not use bribery to make sales.

One purpose of the changes is to draw a clearer line between illegal and permissible payments.

The amendments, which passed the Senate on a voice vote Monday, would allow companies to make so-called facilitating payments — small-scale bribery of low-level government employees, such as customs officials, which is a common part of doing business in some nations.

In addition, the new legislation also would exempt from anti-bribery provisions "courtesies, tokens of esteem, hospitality, travel and lodging, and expenses associated with the demonstration or explanation of products and customary expenditures associated with the performance of a contract."

The Senate bill also would change the name of the act to the Business Practices and Records Act.

At a House Energy and Commerce subcommittee meeting last week, Assistant Attorney General John Rose testified that since 1977 the Justice Department has completed 29 investigations of alleged violations of the act, two of which resulted in prosecutions.

Criminal Action

In one, a civil injunction was granted, he said, and in the other, a criminal action, a fine of $50,000 was paid in connection with bribery of officials in the Cook Islands. Mr. Rose said the Justice Department has 57 investigations in progress.

The bill also eases some of the detailed record-keeping requirements in the act. Under present law, even inadvertent mistakes conceivably could lead to prosecutions, supporters of the amendments said.

But the new language does allow the government to sue firms to collect civil fines if the businesses fail to make a good-faith effort to obey the record-keeping rules.

Seoul Sentences 2 as Spies

The Associated Press

SEOUL — A court on Cheju Island, off the south coast of the Korean peninsula, has convicted two men on charges of spying for North Korea and sentenced them to prison terms of 15 years each, officials said Tuesday.

WORLD NEWS BRIEFS

French Murder Trial Is Suspended

The Associated Press

PARIS — The trial of four men in the 1976 slaying of Jean de Broglie, a French politician-businessman, was suspended Tuesday after the main defendant Pierre de Varga fell ill. Medical experts told Judge André Giresse that Mr. de Varga was too sick to attend the trial.

Mr. de Varga's daughter told reporters that her father suffered a heart attack in his prison cell while preparing for court late Tuesday morning. The doctors testified that Mr. de Varga, a diabetic, was "taken ill" and lost partial use of his right leg. They said there was no evidence of heart trouble.

The trial was scheduled to resume Wednesday morning.

Mr. de Varga and three others are charged with murder in the slaying of Mr. de Broglie, formerly a leading conservative politician with a reputation for unsuccessful business dealings and shady connections. Mr. de Varga is alleged to have ordered the murder to avoid repaying a big loan.

Typhoon Irma Kills 6 in Philippines

United Press International

MANILA — The typhoon designated Irma, the strongest storm to hit the Philippines in 11 years, cut across the main Luzon island on Tuesday, killing at least six persons and sending more than 57,000 fleeing to evacuation centers.

Initial reports reaching the military office of civil defense said that a man was electrocuted in Makati, a Manila suburb, and the other five were crushed to death under the rubble of collapsed houses or killed by flying debris. A ship capsized and sank in Manila Bay, leaving two crewmen missing.

The Manila weather bureau located Irma, with peak winds of 150 mph, near the mountain resort of Baguio, 90 miles (144 kilometers) north of the capital Tuesday evening. The typhoon was expected to move out into the South China Sea early Wednesday.

Iran Said to Jail Rich Businessmen

Reuters

LONDON — Iranian authorities are said to have jailed many of the country's wealthiest businessmen, apparently for alleged profiteering.

Hojatoleslam Nazi, head of a revolutionary tribunal dealing with commercial crimes, revealed the arrests in a newspaper interview Tuesday. He said that "a large number of businessmen who intended to paralyze the country's economics" had been taken to Tehran's Evin Prison. He gave no names, but described the detainees as "dependent and foreign individuals" and said that one had had a Star of David hanging in his shop.

Jewish sources in Tehran said that a Jewish merchant, Nejatollah Pakeyzegi, had been arrested 10 days ago, flogged in public, fined the equivalent of $1.2 million and jailed for one year, apparently for alleged profiteering.

Bonn, Paris Seek EEC Budget Cuts

Reuters

BRUSSELS — West Germany and France insisted Tuesday on huge cuts in the European Economic Community's 1982 spending plans, raising fears of a major battle with the European Parliament, diplomatic sources said.

But EEC budget ministers, meeting here, were deeply divided over where to cut the $25-billion draft budget proposed by the assembly.

West Germany and France insisted on large cuts in allocations for the community's poorest regions and for the unemployed, the sources said. Italy, Greece and Ireland, however, defended spending aimed at boosting industries in poor areas, while France led a vigorous defense of the EEC's large farm budget.

New Wave of Strikes Hits Poland

Reuters

WARSAW — Students, farmers and oil workers staged strikes and demonstrations in Poland Tuesday as pressure mounted on the government to hold free local elections.

Leaders of the independent students union said that at least 73 of the country's universities and colleges were on strike to force the rector of an engineering college to resign and to back a new liberal education law.

Farmers were staging sit-in strikes in three parts of Poland and were reported restive on the eve of talks with the government following a warning by Rural Solidarity leader Jan Kulaj that Poland could face famine this winter. And in Krosno, southeastern Poland, 1,700 oil workers began an indefinite strike to back demands that their enterprise should be turned into a self-managed, profit-making operation, local Solidarity officials said.

Tests Show Blast Caused DC-9 Crash

The Associated Press

ROME — New tests by British experts on the wreckage of a DC-9 airliner show that an explosion of some kind caused it to crash, killing 81 persons in June of last year, court officials said Tuesday.

The prosecutor investigating the case, Giorgio Santacroce, did not say whether the explosion was caused by something inside or outside the aircraft, court officials reported.

Italy's Ministry of Transportation and the private Italian company Itavia that owned the aircraft have said that a missile probably downed the passenger plane over the Mediterranean, 90 miles (144 kilometers) southwest of Naples.

Thatcher Offers Plan To Cut Unions' Powers

By Steven Rattner
New York Times Service

LONDON — Prime Minister Margaret Thatcher has announced a major package of proposed restrictions on the powers of British trade unions.

The proposals made Monday were in keeping with the Conservative government's belief that union strength has played a key part in the country's economic ills. The unions have been criticized for not being willing to moderate wage demands that industry says makes British products noncompetitive. The government has also charged that Britain's powerful trade union leadership does not represent workers.

Employment Secretary Norman Tebbit told a tumultuous session in the House of Commons that the measures were designed "to safeguard the liberty of the individual from the abuse of industrial power and to improve the operation of the labor market by providing a balanced framework of industrial relations law."

But coming three days before a key parliamentary by-election in a Tory stronghold, the package was immediately criticized by opposition spokesmen as a political ploy. Mrs. Thatcher's beleaguered party is now considered likely to lose the election in Crosby, near Liverpool, to Shirley Williams, a popular leader of the new Social Democratic Party.

"For some extraordinary reason, the government thinks it is going to be a great electoral benefit," Mrs. Williams said Monday as she campaigned. "They are bringing forward a formula that will lead inevitably to confrontation."

Union Immunity

The proposals, which are expected to be enacted by Parliament next year, for the first time would expose trade unions to damages of up to $475,000 for actions for which they had previously enjoyed immunity. These would include strikes that are not disputes over employment terms, such as those called in sympathy with other striking unions.

The measures would also take modest steps against closed shops, such as requiring periodic ballots to determine whether 80 percent of the workers still favor a closed shop, in which all of a company's workers must join a union. Supplier contracts stipulating that union labor must be used and the definition of a trade dispute would be changed.

Mrs. Thatcher's announcement unleashed a barrage of criticism from trade union leaders. Even before the announcement, Mrs. Thatcher's relations with organized labor had been poor.

"Attacking the closed shop and whipping up hysteria against it is a shortsighted and damaging political game," said David Basnett, chairman of the economic committee of the Trades Unions Congress. "Restructuring the definition of trade disputes is the jargon for declaring illegal union activities that have been lawful since 1906."

But the government's action was applauded by business groups, which have been calling for changes in labor law. In addition, changes along the lines of those put forward Monday have public support, according to a variety of opinion polls.

Official Vows No Shift on Ulster Policy

United Press International

BELFAST — Britain's Northern Ireland secretary, James Prior, responding on Tuesday to a show of Protestant vigilante might led by the Rev. Ian Paisley, vowed the government would not let private armies supplant security forces.

"The government will not allow private armies to take over the work of the police and the army," Mr. Prior said. "The government will not adopt methods which abandon the rule of law or which are intended to punish the innocent."

But Mr. Paisley said Tuesday he might put his vigilante Third Force on the streets in Northern Ireland by the weekend. "If the British government have come to the conclusion they are going to outlaw people for defending themselves, then the British government is just simply putting the naked light to the powder keg, and it would be their responsibility for the results," he said in rejecting Mr. Prior's warning.

'Groundless Fears'

But Mr. Paisley declined to be pinned down on when his men would start patrolling along the border with the Irish Republic and around Protestant towns and homesteads, but he said reports that it would be this weekend "are probably quite right."

Mr. Prior denied Mr. Paisley's repeated allegations that Britain planned to unite Northern Ireland with the Irish Republic and accused him of stirring up "groundless fears."

On Monday night, in the Protestant town of Newtownards, Mr. Paisley assembled thousands of vigilantes to climax his "day of action" to protest British policy.

Israeli Scientists See Virus Linked To Sheep Cancer

Los Angeles Times Service

JERUSALEM — Scientists at Hebrew University here believe they have proved that lung cancer in sheep can be transmitted by a virus, a finding that ultimately may have an impact on human cancer research, it was announced Tuesday.

The research team, headed by Kalman Perk and Israel Hod of the university's agriculture faculty, said that it isolated and refined a virus found in cancerous sheeps' lungs and used it to cause cancer in healthy sheep.

Mr. Perk said that it was the first time scientists were able to obtain unambiguous proof that lung cancer can be induced by virus in domestic animals in their natural habitat.

Mr. Hod said that the sheep lung cancer is similar to a rare type of tumor found in humans. He said that in the past it had been very difficult to study that form of human cancer because its infrequent occurence made it extremely hard to collect reliable data.

Scientists have known for years that viruses are associated with some — but not all — kinds of cancer. Mr. Perk said, however, that this is the first scientific model that has produced such decisive results.

The scientists said that the next step in their research was to seek methods of treating the virus-caused cancer.

Labor Party Chief Shuffles Shadow Cabinet in Britain

Reuters

LONDON — The leader of the British opposition Labor Party, Michael Foot, shuffled his shadow Cabinet Tuesday to give it a distinctly leftist stance on nuclear disarmament and the European Economic Community.

He named the party's parliamentary business manager John Silkin, who supports Labor's policy of unilateral nuclear disarmament, as its spokesman on defense and disarmament.

Former defense spokesman Brynmor John, who opposed the party policy on nuclear disarmament, becomes spokesman for social security.

Eric Heffer, who supports the party's pledge to withdraw Britain from the EEC, was appointed spokesman on European and Community affairs.

Brady Leaves Hospital, Says 'The Bear Is Back'

Washington Post Service

WASHINGTON — Declaring that "the bear is back," White House Press Secretary James S. Brady has left the hospital almost eight months after an attempted presidential assassination left him near death with a bullet in his head.

Demonstrating the dramatic progress he has made since then, Mr. Brady on Monday walked slowly but triumphantly out of the main entrance of George Washington University Hospital. The faint scars of several operations crossed Mr. Brady's head, and his left arm, still paralyzed by the injury, was supported by a sling.

But his high spirits were reflected in an outfit of kelly green sweater and blue-and-green plaid pants. By his side was his wife, Sarah, who wore a pin showing a bear reading a newspaper with the headline, "The Bear Is Back," a reference to Mr. Brady's nickname.

Dr. Arthur Kobrine, the neurosurgeon who performed the brain surgery after the March 30 shooting, shook Mr. Brady's hand as he was helped into a wheelchair and lifted into a specially equipped van that carried him home to Arlington, Va., a suburb of the capital.

Although Mr. Brady did not speak during his exit, he greeted reporters, the crowd and the a high school band with a thumbs-up signal of appreciation. And White House aides distributed a "statement by the press secretary," Mr. Brady's first since the shooting.

The 41-year-old press secretary said that "we rejoin our friends and neighbors with a true spirit of optimism for the future. They say, 'The bear will be back.' I am here to say, 'The bear is back.' "

He said he was "saddened" to say goodbye to the hospital staff "whose dedication, competence and refusal to give up have made today possible." And he thanked "so many wonderful people throughout the country and around the globe," adding, "Your prayers and words of support and encouragement were the greatest source of strength and courage I have ever known."

United Press International

White House Press Secretary James S. Brady, with his wife at his side and aided by a physical therapist, leaves George Washington University Hospital in Washington.

Bowing to President on Pentagon's Budget, Congress Proves to Be Soft Before Big Guns

By George C. Wilson
Washington Post Service

WASHINGTON — For a while, it looked good for Rep. Joseph P. Addabbo, Democrat of New York, and those others in Congress who wanted to slash the Pentagon budget.

Then, suddenly, the same President Reagan who had been rattling sabers and promising to rearm America picked last Wednesday to make his big disarmament speech.

"Cost me 80 votes," Rep. Addabbo said of the speech, trying to explain why his amendments to kill the B-1 bomber and MX land-based missile blew up on the pad Wednesday night, only hours after Mr. Reagan had offered to forgo deployment of medium-range missiles in Europe if the Soviet Union would do likewise.

Visible Superweapons

"Maybe 50 votes," said Rep. Jack Kemp, Republican of New York, who fought the cuts partly on the ground that the president needed the B-1 and MX to show the Russians he was really serious about rearming if they did not agree to his proposals for disarming.

Whatever the reasons, the same House that had been warning that the time had come to reduce spending for guns as well as butter flinched when it actually came to denying the president those highly visible superweapons. It voted down Rep. Addabbo's B-1 and MX amendments 263-142 and 264-139, respectively.

Yet, other evidence suggests that the B-1 and MX votes were not a gauge of congressmen's true feelings about how much is enough for defense. The House Appropriations Committee, a few days before the floor debate, had approved the MX amendment by only two votes. And right after the B-1 and MX votes had been tallied Wednesday night, the same House almost hit the Pentagon with a 2-percent cut in its research and procurement accounts.

"With a little more work," said Rep. Les Aspin, Democrat of Wisconsin, "that amendment would have passed." It was voted down 202-197.

"They felt cross-pressured," said Rep. Aspin of House members in trying to explain the apparent contradictions in the voting. "They didn't want to deny the president something as visible as the B-1 and MX, and risk looking soft on defense, but they also wanted to make economies."

Approach to Defense

"When you look at the record, the House usually goes along with the president on the big weapons. When the last president was against the B-1, they were against the B-1. When this president is for the B-1, they are for the B-1."

What does this say about Congress' approach to the key questions of national defense?

"Congress doesn't know what to do about national defense," Rep. Aspin said.

The House Democratic leader, James C. Wright Jr. of Texas, agreed in a separate interview that the House would much rather reduce spending through general percentage reductions in a big, faceless account than zero in on highly visible individual programs with vocal constituencies. This is true of both civilian and military budgets, he said.

Another reason across-the-board cuts are easier to achieve in the Pentagon budget than specific ones is the big guns that the Pentagon can roll up when its weapons come under attack. The arguments over Mr. Reagan's proposals for redressing the strategic balance showed that over the last several weeks.

Heavy Flak for B-1

No sooner had the president made his proposals Oct. 2 than John G. Tower, chairman of the Senate Armed Services Committee, attacked them. The Texas Republican, normally a symbol of Pentagon strength, said that the president's recommendation to stuff the new MX into existing missile silos would not provide the reduced vulnerability everybody agreed was needed.

His House counterpart, Rep. Melvin R. Price, Democrat of Illinois, warned that the president's recommendation to build 100 B-1 bombers would run into heavy flak in Congress. Sen. Ernest F. Hollings, Democrat of South Carolina, who also usually votes with the Pentagon, said that the nation could not afford to build the B-1 as well as the Stealth bomber and should scrap the B-1 proposal.

As the debate heated up, Defense Secretary Caspar W. Weinberger and CIA Director William J. Casey wrote Congress a letter assuring that the B-1 would be able to penetrate the Soviet Union well into the 1990s. Mr. Reagan called key legislators, telling them that he needed the new weaponry so be could negotiate arms reductions with the Russians from a position of strength.

Votes for making big cuts in the Pentagon budget and killing the B-1, MX and other weapons melted under all this heat. The doubting lawmakers evidently felt outgunned and underadvised, and did not want to look weak on defense at a time when the polls indicated that the American people wanted to spend whatever was necessary to keep up with the Russians.

Haig Gives Mexico Ratified N-Pact Documents

By Michael Getler
Washington Post Service

MEXICO CITY — In a move welcomed by the Mexican government, U.S. Secretary of State Alexander M. Haig Jr. has delivered the final documents committing the United States to a treaty that would make Latin America a zone free of atomic weapons.

But Mr. Haig, who was here on a 24-hour visit, was much less likely to win Mexican support for his efforts to curb a buildup of conventional arms in Nicaragua, including the possible shipment of MiG fighters from the Soviet Union.

After the first private meeting here Monday between Mr. Haig and Mexican Foreign Minister Jorge Castaneda, Haig spokesman Dean Fischer said the session "reflected the common preoccupation of both countries with developments in Central America, particularly Nicaragua." Although the two countries do not have identical views, Mr. Fischer said, there was "a sense of mutual concern in the search for ways to deal with the problems of Nicaragua."

The Reagan administration has said there is a danger that Nicaragua will become another Cuban-style armed camp spreading leftist revolution through Central America. But Mexico and some other nations fear that the United States will intervene militarily in Nicaragua and perhaps, in their view, add to the turmoil in the region.

Mexican sources reported that Mr. Castaneda told Mr. Haig again of Mexico's opposition to any U.S. military intervention.

Mr. Haig's visit here, while officially the result of an agreement to set up a routine bilateral forum for discussion of all policy issues between the two countries, also reflects the contradictions in current U.S.-Mexican relations.

Greeted by Mr. Castaneda on his arrival, Mr. Haig stressed the "remarkable" and "unprecedented" level of personal relations, with four meetings alone this year between President Reagan and President José López Portillo and three visits by Mr. Haig to Mexico.

Yet Mexico, an oil supplier and a key regional power in Latin America, also offers backing and low-cost oil to Nicaragua, supports leftist groups opposing the U.S.-backed government in El Salvador and maintains good relations with Cuba.

The ratification documents delivered here Monday by Mr. Haig mark completion of U.S. participation in the Tlatelolco treaty, a multinational attempt begun in 1967 to ban nuclear weapons in Latin America. The U.S. Congress last week gave its advice and consent to the treaty, under which the United States agrees "not to test, produce or deploy nuclear weapons in Latin America."

Starting Point

Mr. Haig said the measure also might serve as a good starting point for increased U.S.-Mexican cooperation in developing Mexico's fledgling nuclear power program.

The treaty has been signed by all Latin American countries except Cuba, but Chile, Argentina and Brazil have not yet ratified it.

Talking with reporters on his plane en route from Washington, Mr. Haig said he would use this visit to try to "clarify and bridge" the views between the two countries.

Asked if he would ask Mexico to use its influence in Nicaragua to halt what Mr. Haig describes as the "drift towards totalitarianism" in that country, he said: "That's a decision for them to make. It's not for us to come down here and wag a finger at their basic approach. But we do know that Mexico shares our basic values, the desire for peaceful change, and that's a pretty sound platform."

Reagan administration officials have said privately that they believe a number of Latin American governments are becoming frightened by the developments in Nicaragua.

Mr. Haig confirmed reports that Nicaraguan pilots were being trained in Eastern Europe to fly MiGs. He said MiGs had not arrived in Nicaragua but charged that there was some evidence that MiGs destined for Nicaragua may have arrived in Cuba. He said, however, that those planes could be for some other purpose.

Venezuelan President's Popularity Is at a Low

By Juan de Onis
International Herald Tribune

CARACAS — Opinion polls show that President Luis Herrera Campins is at a low point of popularity midway through his five-year term and that the opposition Democratic Action Party would win in a landslide if elections were held now.

Although the next presidential election is two years off, in December, 1983, both major parties are bubbling with pre-electoral ferment. This is not good for President Herrera, who cannot run for re-election.

Mr. Herrera has been an activist in foreign policy, traveling extensively in Third World and OPEC countries. But foreign policy is not where political contests are won in Venezuela. The administration has experienced serious political erosion because of sharp increases in the cost of living, a recession that is causing rising unemployment and attempts to increase rates for public services that are often unsatisfactory.

Many people feel that Mr. Herrera has failed to translate his campaign promises to give a "human face to development" into effective programs, despite an enormous inflow of funds from oil exports, which rose to $18 billion a year after he took office in 1979.

With polls showing that in Caracas and the state of Zulia, two key electoral districts, the governing Social Christian Party would not get 20 percent of the vote, the president is facing strong criticism from within his own party. The critics are mainly backers of former President Rafael Caldera, who see this senior statesman as the only presidential candidate who can avert a disaster at the polls for the Social Christian Party.

The Democratic Action Party, a social democratic party that was in disarray after losing the election in 1979, is confident of a comeback. Jaime Lusinchi, 54, a physician-turned-politician who is the party's secretary-general, is virtually assured of the presidential nomination and has the blessing of former President Carlos Andres Perez, who left office in 1979. Mr. Perez is active politically, but under Venezuela's constitution, he cannot run again until two presidential periods have passed. That would be in 1988.

If the Democratic Action Party does recapture the presidency, the Sixth National Plan (1981-85), drafted and initiated under a Social Christian government, would be completed under an Action Party administration. That is what happened, in reverse, with the Fifth National Plan.

Experience under the fifth plan indicated that a change of administration in midstream does not significantly alter planned public spending, as long as the resources are available. The major projects go forward with earmarked financing, such as the state oil corporation's development plans, electrification and the Caracas subway.

The key question on the sixth plan is whether the estimate of $97.6 billion in oil sales over the five-year period is achieved. Taxes and royalties paid by the nationalized oil industry provide 70 percent of fiscal revenue. A drop in oil income would squeeze budget income, which would probably lead to cutbacks in low-priority programs and projects that can be stretched out.

With an election approaching, it would be difficult for the Social Christian administration to obtain borrowing authority beyond the $4.2 billion already obtained. This level of borrowing is the basis for one option in the sixth plan, which foresees $41 billion in non-oil investment. The other option would require an additional $6 billion in borrowing authority, which Congress has not approved.

Electoral considerations have certainly influenced the way Congress has handled the administration's request for funding, but this is not obstruction of the plan itself. One of the strengths of Venezuelan democracy is that there are substantial areas of agreement between the two major parties, and a willingness to negotiate.

This tendency toward "consensus politics" grows out of the confrontation with the military dictatorship of Col. Marcos Perez Jimenez that ended in his overthrow in 1958, when all the parties, the labor unions, most business organizations and the Roman Catholic Church made common cause in a broad national resistance front.

Venezuelan political leaders attach importance to preserving the democratic system from the dangers of partisan conflicts that paralyze the government and invite military intervention.

The reaction of Democratic Action Party leaders to the evident weakness of President Herrera in relation to the public and his party has been to initiate talks with the president on the budget, foreign affairs and other areas of potential conflict between the executive and Congress.

This is a change in tactics by Mr. Herrera, who came into office attacking corruption under the former administration of Mr. Perez and for the first two years kept his distance from Democratic Action. For the remainder of his term, Mr. Herrera may get more support from the opposition on basic legislative issues of national interest.

U.S. Nurse Held In 12 Drug Deaths

Los Angeles Times Service

LOS ANGELES — Nurse Robert R. Diaz, 44, has been arrested on 12 murder charges arising from drug overdose deaths of patients at hospitals where he worked in California.

Riverside County sheriff's deputy Rance Shoemaker said Mr. Diaz was taken into custody Monday in Apple Valley, Calif., about 70 miles (112 kilometers) east of Los Angeles, booked into the central jail at Riverside and held without bail.

The warrant charged Mr. Diaz with murder in the deaths of 11 patients at the Community Hospital of the Valleys in Perris and of one patient at the San Gorgonio Pass Hospital in Banning, between March 30 and April 25.

U.S. Navy Secretary Supports Allen On Intention to Hand Over Money

By Edward T. Pound
New York Times Service

WASHINGTON — Navy Secretary John F. Lehman Jr. has said that he signed a statement supporting Richard V. Allen's contention that Mr. Allen intended to surrender to the government the $1,000 given to him by a Japanese magazine.

Mr. Lehman said Monday in a telephone interview that he was in Mr. Allen's office on either Jan. 21, the day Mr. Allen received the cash, or a day or two later. The Navy secretary said Mr. Allen, President Reagan's national security adviser, expressed "chagrin and amazement" that the Japanese had handed him the cash.

"He said he had stuck it in a safe to turn it over to security," meaning government authorities, said Mr. Lehman, who said that he had provided a signed statement to Mr. Allen recalling their conversation of January.

Mr. Lehman is a close friend of Mr. Allen, who supported him for the Navy post.

Mr. Lehman said he had provided the statement, dated Nov. 16, to Mr. Allen after he "saw this flap" developing in the news media. He acknowledged that he had not given the statement to the FBI and had not been questioned by the bureau. Mr. Lehman said his statement was not under oath, but that he would swear to his account.

Disclosure Report

In another aspect of Mr. Allen's associations, it was learned that a financial disclosure report he filed in January stated that he had sold his private consulting business in 1978, although Mr. Allen and White House officials said the actual date was in January, 1981.

In another development, new information emerged Monday on contacts between Mr. Allen and William H. Webster, the FBI director. Mr. Allen is under investigation by the FBI for taking the $1,000, which he described as an "honorarium" intended for Nancy Reagan, after three women representatives of the magazine Shufunotomo interviewed the president's wife on Jan. 21 in the White House.

According to an administration official, Mr. Webster made two telephone calls to Mr. Allen, not one as previously reported. In the first call, in September, Mr. Webster called to arrange for FBI agents to interview Mr. Allen, the official said. He said Mr. Webster made a second call to Mr. Allen two weeks ago, reportedly telling Mr. Allen that a Japanese newspaper would be printing a story about the investigation.

No Comment by Webster

As reported by The New York Times on Sunday, Mr. Webster also was said to have told Mr. Allen that the Japanese had "corroborated" Mr. Allen's contention that only $1,000 had been transmitted.

Mr. Webster has not commented on his contacts with Mr. Allen. The Justice Department generally considers it improper for investigative authorities to discuss cases with those being investigated.

Meanwhile, Mr. Allen reaffirmed Monday that he had sold his consulting business, Potomac International Corp., in January, 1981, although the financial disclosure statement he filed in January at the White House showed that he had sold the business in January, 1978.

"It was a dumb mistake," Mr. Allen said, in response to a query by telephone noting that he had also dated the form Feb. 19, 1980. Mr. Allen said that he "detected the error" 10 days ago and had so informed Fred F. Fielding, the counsel to the president.

With controversy swirling around him, Mr. Allen and his supporters at the White House were said to have been buoyed by the news that Mr. Lehman had disclosed his January meeting with Mr. Allen.

Japan's Forces Revive Medals For Officers

The Associated Press

TOKYO — Tired of looking drab next to their foreign colleagues at diplomatic receptions, officers of Japan's Self-Defense Force, as the military is called, have won the right to wear uniform medals for the first time since the end of World War II, a spokesman said Tuesday.

No medals left over from the war will be authorized, however, under the policy that goes into effect next April. Denying at a news conference that the policy suggests a revival of Japanese militarism, the spokesman said it was intended strictly to boost the morale of the officers.

The only medals approved will be the Memorial Emblem, which has existed since the Self-Defense Force was created in 1954 and is divided into 15 categories for a variety of services.

Pope Names Cuba Bishop

The Associated Press

VATICAN CITY — Pope John Paul II has named Monsignor Jaime Lucas Ortega y Alamino as the new archbishop of Havana, the Vatican announced Tuesday. He succeeds Archbishop Francisco Ricardo Oves Fernandez who resigned for health reasons.

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Herald Tribune
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Page 4 Wednesday, November 25, 1981

Reagan's Budget Circus

It's great political theater: Here is Congress, undisciplined and ill-informed, ever ready to waste money at the drop of a campaign contribution. And there is President Reagan, a tough man elected to do the tough job of curbing Big Government. In the last act, our hero vetoes a bloated spending bill and makes it stick, teaching Congress a lesson in the value of the taxpayer's buck.

Life, alas, is less satisfying than theater. Reagan is likely to triumph in this largely symbolic fight over 1982 appropriations. But $2 billion up or down in a $700-billion budget can't cure the nation's economic troubles. A carefully engineered political victory will only obscure the fact that Reagan has yet to produce an economic policy with much chance of success.

At issue is a resolution to allow government spending at specified rates until Congress finishes the 1982 budget. In September, Reagan asked for $8 billion in cuts on top of the budget reductions voted by Congress during the summer. The cuts were needed, he asserted, to hold down the deficit. When congressional Republicans balked, Reagan said that he would split the difference and settle for $4 billion.

That is just what the leadership says Congress gave him. The president says he sees only $2 billion in cuts, so he vetoed the interim spending measure. The veto worked. Congress has backed down, continuing current spending levels only through Dec. 15 rather than July 15.

But minor fiddling with the budget can't change some grim economic realities. The economy is in recession. How long the downturn will last or how severe it will be is unknown. It is clear, though, that the president's script for recovery is not being followed. Interest rates are down a bit, but not enough to reflect any real optimism about inflation. Business will get big breaks from the Reagan tax program, yet stock prices and corporate spending plans don't show confidence in the future.

The pessimism is understandable. The president's tax cut was large enough to guarantee big deficits, yet poorly designed to encourage savings and investment. His budget cuts are large enough to hurt the poor and the cities, but don't touch middle-class entitlements or wasteful defense spending. Reaganomics looks ever more like an excuse to consolidate the fortunes of Reagan's wealthy allies in the West and South.

In truth, this confrontation with Congress amounts to little more than a diversion. What is needed is an economic program with content; circuses are no substitute for bread.

THE NEW YORK TIMES.

Safer Nuclear Plants

The mix-up at the Diablo Canyon nuclear reactor, in which reinforcements intended to prevent earthquake damage were installed in the wrong places, has had the salutary effect of directing attention to the Nuclear Regulatory Commission's ability to guarantee the safety of nuclear power plants.

In the 2½ years since the accident at Three Mile Island, the NRC has passed through two distinct phases. The first year and a half were consumed by six separate investigations of the accident and by actions to correct the most glaring deficiencies they uncovered. Under pressure from the Reagan administration, Congress and the industry, the past year has been devoted to looking for ways to speed up the licensing of new reactors. Diablo Canyon seems to have opened the way for a new phase, one that just might mean a real improvement in nuclear safety.

The NRC operates by setting the standards according to which nuclear plants must be built, operated and maintained. It writes the regulations, inspects, audits and — at least in theory — enforces its rules through its power to license, levy fines and revoke licenses. However, it relies on the utilities to turn regulations into blueprints and blueprints into operating plants. It does not and cannot review every engineer's calculation, every construction worker's weld. It relies on quality assurance programs run by the utilities to see to it that what is supposed to be done is in fact done.

The errors at Diablo Canyon and at several other even more notorious plants in Texas, Ohio and elsewhere all point to the failure of these essential quality assurance programs and to the NRC's lack of response when warning signals appear. An NRC analysis of why the utilities' quality assurance programs fail turned up this bloodcurdling list of causes: "unqualified workers or quality control inspectors, falsified records, intimidation of quality control inspectors, lack of authority, lack of communication, inadequate staffing levels, inadequate corrective action systems, lack of supervision, poor to nonexistent procedures," and so on, but you get the idea.

At a congressional hearing on the subject last week, the commission's new chairman, Nunzio Palladino, testified with a candor and a lack of defensiveness that are as welcome as they were rare among his predecessors: "After reviewing both industry and NRC past performance in [quality assurance], I readily acknowledge that neither have been as effective as they should have been." Too many utilities, he said, fail to recognize that reactors require a level of engineering sophistication and care entirely different from that for coal-powered plants. What is needed is "a reorientation in thinking on the part of these utilities," because, "while we can keep on finding problems if they exist, there is always the danger that there are problems that are overlooked." In their own interest, utility managements have to subordinate their desire to get plants built to the will to get them built correctly.

The NRC, apparently more united than it has been for years, seems genuinely to welcome Congress' new insistence that it pay more attention to quality assurance and safety. The administration and the nuclear industry, on the other hand, continue to insist that the regulators achieve nothing more than to slow the licensing of safe and well-built plants, and they continue to call for ways to speed up the process.

There is nothing wrong with removing unnecessary delays, but the evidence suggests that this is not where nuclear power's problems lie. If anything, it seems that the NRC has not been looking closely enough.

THE WASHINGTON POST.

Ethics at the White House

The professionals in the Reagan White House know that a two-day story is more than twice as bad as a one-day story. Then why have they let the Richard Allen case drag on into an 11-day story? What are the Reagan administration's ethical standards for its most sensitively placed officers? What are Allen's standards for himself?

These are among the issues raised by the strange way in which the president's national security adviser chose to avoid embarrassing Nancy Reagan last January. After helping some Japanese friends obtain a prized inaugural interview with her, he accepted a $1,000 "thank you" envelope plus two wristwatches. Eager not to offend the donors, or let the money reach Mrs. Reagan, he stashed it in a safe. He kept the watches.

Why, if he meant to be so solicitous of the customs of the donors, did he not send them the receipt they needed and wanted? Why was nothing done about the money until someone else discovered it? Did he learn nothing from the conflict-of-interest charges that forced him out of the Reagan campaign?

President Reagan and his highest aides knew of the incident in mid-September. Having called in the FBI and sparked inquiries abroad, they knew also that the story was certain to come out. When it did, they came up with a series of nearly daily contradictions, corrections, omissions and denials, each a fresh self-inflicted wound. Why weren't they ready with a coherent account? Why, indeed, have they not offered one yet?

Edwin Meese, the president's counselor, says that "appropriate action will be taken" if the Justice Department doesn't "totally clarify" the situation and "absolve" Allen. But suppose that Justice finds no criminality and no need, therefore, to appoint a special prosecutor: Would that meet administration standards? Aren't the standards for conduct higher than that it not be criminal?

There are smaller questions as well: Why did spokesmen initially conceal Reagan's early knowledge of the problem? Why did Allen initially deny any role in arranging the interview? Why did the Japanese journalists, having paid the "honorarium" and given the watches, think it necessary also to send Mrs. Reagan an expensive lacquered box? Is the White House dismissing the question of the gift watches prematurely, contrary to its own regulations? And why the veiled suggestions that the FBI, rather than the White House, has been soft on Allen?

Most of the questions would be of little interest if they didn't persist, multiply — and contrast so starkly with the issues that ought to occupy the national security adviser and his commander in chief. Yes, let the Justice Department answer the questions about Allen's conduct. But meanwhile, the White House owes some answers about its own.

THE NEW YORK TIMES.

Nov. 25: From Our Pages of 75 and 50 Years Ago

1906: Mormon Leader Fined

SALT LAKE CITY — After pleading guilty to the charge of polygamy, Mr. Joseph E. Smith, president of the Mormon Church, was fined $300. The charge against the prophet was based on the recent birth to Mr. Smith's fifth wife of his 43d child. Governor Cutler of Utah was one of the witnesses against Mr. Smith. In recent investigations of the Mormon Church conducted by Congress, the contention by members of the sect examined has been that polygamy was an ancient tenet of their creed, which was not now adhered to. A federal statute makes it unlawful for Mormons to practice polygamy. This is the first confession by such a high church dignitary that this law was not being observed.

1931: Terrorism in India

LONDON — Intimation that the British government is planning strong action to put down terrorism in India was one of the outstanding features of today's session of Parliament. A hint of the government's determination to use drastic measures to end the menace to individual liberty and social peace, and to seek the resolute suppression of violence, was given by Lord Lothian, undersecretary of state for India, in reply to speeches by Conservative peers protesting against the recent unrest and terrorism. Meanwhile, the federal structure committee of the round-table conference was continuing its discussion at St. James's Palace on the powers of the proposed Indian government.

The Children 'Disappear,' Their Governments Usually Don't

By Jonathan Power

LONDON — At 9.40 p.m. last Jan. 29, uniformed members of the security forces of El Salvador burst into the house of Marianella García Villas, president of the country's human rights commission. She was not at home, but staying at her house were seven friends, including three of their children, aged 5, 7 and 13. They were questioned about the whereabouts of Mrs. García Villas. They said they didn't know.

The soldiers beat and tortured the adults in front of the children, who screamed and implored them to stop. Next the children were beaten in front of their parents. Unable to extract the information they required, the soldiers took them all off to the national police station. The children were then taken away with no explanation as to their whereabouts. It was only thanks to Amnesty International that they were traced to a juvenile reform center.

On this coming Dec. 1, Amnesty will start a worldwide campaign on "disappearances," to help the thousands who are picked up by the police or the army and are not seen again for years, and sometimes never. Amnesty has decided to single out for special attention the disappearance and the torture of children.

This month an unusual group of elderly Argentine ladies arrived in London, the *abuelas* (grandmothers) *de Plaza de Mayo*. They have been campaigning to locate 67 missing children in Argentina. One of the women, María Laura Iribar de Jotar, told of how last year she finally traced her two small granddaughters to a juvenile court in the province of Buenos Aires just as adoption formalities were being completed with the family who had been looking after them.

The grandmother had last seen the children — Tatiana, then 4, and Laura, then aged 2 months — together with their parents on Oct. 17, 1977. That was the day they had disappeared, victims of the Argentine armed forces' policy of secret kidnappings.

A week after their parents' arrest, Tatiana and Laura were found crying in a street. They were taken to social workers and then registered in separate orphanages as being of unknown name. No effort was made to locate the family.

In 1978 the children went to live with a married couple that wishes to adopt them. Their grandmother had been combing court registers, visiting adoption centers, keeping her eyes and ears open. On March 19, 1980, her persistence was rewarded. During a routine visit to the juvenile court of San Martín she stumbled across them.

This extraordinary group of Argentine women has many more stories to tell of this ilk. Most of their efforts have not been as productive as those of Mrs. Iribar de Jotar. Children are rarely reunited with their parents. Babies born in prison to political prisoners are removed, and "disappear" at birth. But by working together, demonstrating and lobbying, the "grandmothers" keep up each other's morale and remind the world not to forget Argentina and its children.

To some it might seem facile to harp on the cases of children. But it is clear, from reading through hundreds of Amnesty dossiers, how often children do feature in Amnesty's work.

It is fair to say that no Amnesty case achieved as much publicity, and that few had such political consequences, as the revelations that then Emperor Bokassa of the Central African Empire had ordered, and perhaps participated in, the massacre of about 100 children. The case changed French policy in Africa, created the first all-African human rights commission of inquiry, helped propel forward a mood that was already gathering pace in Africa to take human rights and democracy more seriously, and probably helped undermine the bid by Valéry Giscard d'Estaing to be re-elected president of France.

Amnesty achieved all this not because of any spectacular research project. It was merely a stone they lifted while they were checking out, in a routine way, the reports of a riot.

Children in Amnesty's day-to-day work are usually not a special concern. But doesn't the way a government treats its children indicate in a fairly direct way the nature of the beast?

The Soviet government has used the process of separating children from their parents in carefully calibrated religious persecution. The children of activist Baptists, Pentecostals and Adventists have been "taken into care" because their parents ignored the government's rules about officially registered religious activity.

East Germany, too, uses the children of political prisoners to punish their parents. Political prisoners, once they have served their sentences, are often allowed to emigrate to West Germany, but on occasion the children are held back for a few months. Amnesty has evidence of 10 children whom the authorities have refused to allow to leave.

The South African government has often detained children. It is known that children aged 14 and 15 have been imprisoned in the isolated maximum security prison, Robben Island. The authorities are under no obligation to give information to the parents of children detained incommunicado.

In the great debate that has arisen in the human rights arena about whether certain governments are dictatorial or merely "authoritarian," the question of the treatment of children has not been central.

It should be.

The writer is editorial adviser to the Independent Commission on Disarmament and Security Issues.

Presidents: How to Improve the Choice

By David S. Broder

WASHINGTON — The rescue of the presidential nominating system is a task whose urgency has been recognized by both parties. The Democrats and the Republicans have chartered commissions to recommend changes in public participation, delegate-selection caucuses, presidential primaries and convention nominating rules.

The effort to overhaul the procedures by which Americans choose the principal candidates for the most important office in the land has been stimulated and challenged by a recent report by the Duke University Forum on Presidential Nominations, a bipartisan body including past chairmen and presidential aspirants of both parties and headed by the university's president, Terry Sanford, himself twice a contender for the Democratic nomination.

The report is addressed to the parties. Its chief message is that they must accept responsibility for the recent corruption of the presidential nomination process. It says bluntly why the present system — with a multitude of primaries feeding a media hunger for the hero-candidate whose magical "momentum" will lock up the nomination long before most voters have the contest in focus — "ill serves the purposes of the nation."

"It saps interest, distorts choice, eliminates judgment, narrows the popular base, spans too long a period and squeezes out of the deliberative process those peers whose evaluations and cooperation the choice of a president vitally requires," the Sanford report says. The present system "radically erodes the foundation of the one institution most necessary to its effective operation: the political party."

Of the five main recommendations the commission makes, one is virtually certain to be adopted by the Democratic Party rules commission headed by Sanford's friend and neighbor, Gov. James Hunt of North Carolina: to make members of Congress and other major elected officials automatic voting members at conventions.

There will be no great controversy in the Hunt commission or its Republican counterpart, headed by Ernest Angelo of Texas, about two other recommendations — to "revitalize the local party caucus" as the locus for most delegate-choosing decisions, and to "remove every possible barrier to convenient participation" in those caucuses.

It is unlikely that either party will go as far in restricting primaries as Sanford would like. The report suggests that all primaries be squeezed into a four-month period, with one day a month set by party rules for the voting. That would shorten the primary season and would discourage many states from even bothering to hold primaries. And it would provide the intervals needed to deny those early-primary plurality winners their cheap "momentum" victories on the next Tuesday.

The last recommendation, even more controversial, is to end the candidates' veto power over the choice of their delegates, and to free all delegates from binding commitments of support for particular candidates.

The thrust of the "reforms" of the past decade has been to make the convention an automatic device for recording and ratifying choices already made by the primaries and the state conventions. The Sanford report says that "failure to free the delegates could mean the end of the national party convention as a deliberative body," and that would "clearly signal the demise of political parties."

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Long on Worthy Intentions but Short on Sophistication

By William Pfaff

PARIS — A year after the presidential election of November, 1980, it must be said that the Reagan administration is well on its way to suffering the same debacle as the Carter administration. It risks being driven from Washington three years from now in the same disgrace as the Carter people in 1980, and for much the same reasons.

The American political system is now producing presidents who are well-intentioned but whose ideas of government, economics and foreign affairs, like those of the men around them, are without breadth or sophistication. The result is confusion and failure.

The Reagan administration's economic policies, as David Stockman recently confirmed, are simply those of the golf-club bar and the executive dining room — and, predictably, they are not working.

From an administration which likes to proclaim that there is no free lunch, one might have expected some skepticism about a plan to increase spending while cutting taxes. Yet these men were seduced by the notion that, since lower taxes have resulted in some cases in sufficient new economic activity to provide the government with more income than before, a universal principle was there revealed. If it could really be relied upon to work like that, no government on earth would have high tax rates.

Foreign policy amounted to being tough with the Russians while rearming. This was expected to bring with it resolution of Gulf and Middle Eastern problems, and new support from the allies.

There was the same taste for oversimple solutions in the Carter administration. Mr. Carter told an assistant that "if he could ever sit down and spend two, three or four days with Brezhnev" he was sure he could work out the problems between the United States and the Soviet Union. Mr. Carter expressed bitter disillusionment after Afghanistan was invaded.

Mr. Reagan has said that the Russians are behind the world's troubles. "Let us not delude ourselves," he said in a campaign interview last year, "the Soviet Union underlies all the unrest that is going on." If it were not for the Soviet Union, "there wouldn't be any hot spots in the world." His "zero option" arms control proposal last week was notable for the sudden absence of this kind of talk.

Neither man has revealed a grasp of Marxism, or of the motivations of a society, such as the Soviet Union, which has experienced revolution, Stalinism, invasion and devastation. Both express the progressive error, which holds that men everywhere are alike in their ambitions, and these are to achieve what Americans already enjoy.

This progressive philosophy has always been willing to assign responsibility for the world's ills to a particular group that perversely refuses to be reasonable. This conveniently localizes evil and makes it conquerable: When the Communists — or before them the Nazis, the Japs, the Kaiser — are whipped, mankind will resume its march to happiness.

For all of their born-again Christianity, Reagan and Carter seem not to appreciate that men do bad things for good reasons, and that men's and nations' interests sometimes inevitably collide, for reasons which have nothing to do with morality. As the Cambridge historian, E.H. Carr, has put it, "History is a process of struggle, in which results, whether we judge them good or bad, are achieved by some groups directly or indirectly — and more often directly than indirectly — at the expense of others. The losers pay."

The last administration and this one have not been up to the intellectual challenge of the job.

Presidents Reagan and Carter represent the political rebellion of provincial America against its misgovernment by that "Establishment" which before had enjoyed a predominant influence in both Republican and Democratic administrations since the time of Warren Harding. It became discredited by Vietnam, enjoyed an ambiguous return under Richard Nixon and Henry Kissinger, and was decisively defeated by Carter.

The two most recent presidents came to power by challenging Establishment Washington and also the New York media, the cosmopolitans and "secular humanists" who have sponsored certain abrasive changes in the public morality of America. The rise of these two men, successively from the left and the right of American politics, represents a new populism arising from a new political demography in the country.

But the effects will not last if these new men fail the simple test of competence, as the Carter administration failed and the Reagan administration is now failing. The Johnson and Nixon administrations were destroyed by their own follies, but these were not follies of credulous and unsophisticated men. The last administration and this one have not been up to the intellectual challenge of the job.

People abroad remain intimidated by the scale of U.S. economic and military power but are increasingly anxious about the quality of the men and the ideas that make the policies of the United States. This is the principal reason why a new peace movement and a new anti-Americanism have arisen in Western Europe today. It is an easy, if pessimistic, prediction to say that the same things can soon emerge in Japan.

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Letters

No Confidence

It's a pity America doesn't have votes of no confidence, a device that has served Europeans for years. The importance of major policy decisions, in America as in Russia, is too great for so few to be making them.

DAVID DeSARIO.
Amsterdam.

Unidirectional

Two front-page headlines (IHT, Nov. 19) read "Reagan Presses for Arms Cut" and "Allies Praise U.S. Plan but Russians Reject It." Should one expect that the anti-U.S. demonstrations will now change into anti-Soviet demonstrations? Only if one is naive.

WILLIAM PASSIGLI.
Minusio, Switzerland.

Pride in Space

In an American student living in London, the second flight of the space shuttle struck a patriotic note. It is a shame that the Reagan administration sees fit to cut funds to the space program. The U.S. exploration of space has always been something of which the American citizen could speak with pride.

JEFF MILLER.
London.

No Easy Street

Stanley Karnow's article "The Hostages Deserve More Than a Pittance" (IHT, Nov. 6) is mischievous. Do Americans on foreign assignment for their government now claim a half-million dollars when they fall on evil days overseas?

I rejoiced in the heroes' welcome the hostages received when they came home. Reports suggest that they did not, indeed, have an easy time of it.

To our knowledge, however, none faced the horror of Vietnam, nor the added degradation of having to return home in near disgrace. Nathan Hale regretted that he had only one life to give for his country. The returned hostages regret that their government is not putting them on easy street for life.

ROSS DIXON.
Jubail, Saudi Arabia.

A Theory Still

Flora Lewis, it seems, has failed to heed her own advice by presenting Darwin's ideas as scientific fact (IHT, Oct. 20). Had she continued to learn, she would know that Charles Darwin presented us with an interesting theory that contains several gaping holes. Darwin may have been correct, but the biblical account of creation may also be correct. Let us also remember that today's science is tomorrow's folly.

GEORGE H. SCHOENBAUM
New York.

Further Burden?

Government action can undermine, depress, even wreck the national economy. Given time, President Reagan has a fair chance of accomplishing all these things. However, not even the president can "aggravate" the economy. I am entitled to be surprised, dismayed or irritated by such linguistic untidyness on the part of James Reston (IHT, Nov. 17), but only the state or the condition of the economy or my feelings can meaningfully be aggravated.

STANLEY J. GLICK.
Paris.

The Czar's Son

Re the letter "Son of the Czar" (IHT, Nov. 18): The czar's son Alexis was a hemophilic and his doctor was in constant attendance. Gen. Wrangel's troops retrieved the bodies of the family.

MARTHA LUYSON.
Geneva.

Anti-Americanism in West Germany

By Wolfgang Wagner

HANNOVER, West Germany — The impression seems to be spreading that anti-American sentiment is sweeping across West Germany. That picture is badly distorted. The recent protests against U.S. strategy do not reflect a majority of West German opinion. Nor can terrorist attacks against U.S. officers and military installations be considered signs of general hostility.

It would be wrong to interpret criticism of some aspects of Reagan policies as anti-Americanism. Such a misperception plays into the hands of those truly antagonistic to the Western alliance.

Terrorism has been on the rise again, and extremist organizations like the Red Army Faction have directed assaults in the last few months against U.S. forces in West Germany. In September they almost killed Gen. Frederick Kroesen, the U.S. Army commander in Europe. Earlier they exploded a bomb at the U.S. air base at Ramstein.

Americans are not their only targets. Terrorists have murdered West German bankers and businessmen, and the evidence indicates that leaders of the Social Democratic Party, including Chancellor Helmut Schmidt, are on their hit list. The terrorists, a criminal fringe, do not represent the advocates of peace or neutralism who have been demonstrating lately.

At a big demonstration last month in Bonn, speakers included Social Democrats and their rhetorical fire concentrated on President Reagan. Surveys do indicate anti-American feeling among some young people.

And the demonstrations, although confined to a minority, do mirror the concern of many West Germans about the direction of U.S. policy. The West German public supports the government's decision, made in the framework of NATO, to deploy medium-range U.S. missiles in West Germany. West Germans also believe, however, that negotiations with the Soviet Union ought to be initiated to achieve arms control.

What has worried West Germans is that the Reagan administration was promoting the military side of the equation without matching diplomatic moves. That worry leads to the fear that West Germany could be the battlefield in a nuclear war.

The young people in the forefront of the opposition to Reagan have grown up in a period of détente and cannot fathom much of the recent U.S. concentration on rearmament.

Communist money from East Germany has no doubt gone into the peace movement in West Germany, but it is probably marginal. Few critics of the United States are pro-Communist. Their model is the demonstrating that swept through America during the Vietnam War.

Opinion polls find 56 percent of West Germans in favor of closer cooperation with the United States, but only 28 percent thinking that President Reagan ought to be followed unconditionally.

A fair conclusion is that West Germans want to be a partner rather than a satellite of the United States. To call that anti-Americanism is to commit an error of potential harm to both nations.

The writer is editor of the Hannoversche Allgemeine Zeitung.
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1980

Official Says Polisario Views U.S. As Last Hope for Peace in Sahara

By Barbara Crossette
New York Times Service

NEW YORK — For the Polisario Front, which has been fighting Morocco for nearly six years for control of the Western Sahara, the United States is the remaining hope for peace and a political settlement in the region, according to a leader of the group.

Hakim Ibrahim, foreign minister of the Polisario Front, has been in New York since September attending the UN General Assembly. The assembly is to take up a resolution this week calling for negotiations on the future of the Western Sahara, which Spain gave up in 1976.

In an interview in New York on Saturday, Mr. Hakim said that neither the efforts of the United Nations nor those of the Organization of African Unity would influence events in the region as much as what he and other Polisario officials believe to be an impending U.S. decision on more military assistance to Morocco.

Morocco's King Hassan II is planning to visit Washington in the near future. Although the State Department says that no date or agenda has been set for the visit, diplomats in Washington suggest that the king might arrive early in December.

U.S. Concerned

The Reagan administration is concerned about what has been described as a recent increase in the sophistication of arms being used by the Polisario guerrillas against Morocco.

In testimony to the House Foreign Affairs Committee on Nov. 12, Secretary of State Alexander M. Haig Jr. said that advanced Soviet weapons, including tanks and radar-guided SAM-6 anti-aircraft missiles, were now being used against Moroccan forces. He said the weapons were being supplied through Libya, which has supported the independence movement along with Algeria. The Polisario is also reported to have bases in Algeria.

In the interview, Mr. Hakim said: "In 1979, Hassan told President Carter, 'Give me weapons and I will have peace by 1980.' The United States responded favorably. But did the king of Morocco make peace? On the contrary. There has been only more intransigence, more fighting, more suffering."

Mr. Hakim said that if King Hassan succeeded in obtaining more U.S. arms, the Polisario would respond accordingly.

"If the Americans react favorably to Moroccan requests for weapons, it will be very dangerous," Mr. Hakim said. A rejection of any Moroccan request could bring a settlement sooner, he said, adding, "The key to all our hopes are the Americans."

Base in Sahara

Mr. Hakim appeared to be putting some distance between the Polisario Front and the Algerians and Libyans. He said that contrary to Western reports, the Polisario's provisional government was based entirely in the Western Sahara, which it calls the Sahara Arab Democratic Republic, and not in Algeria.

Mr. Hakim would not be specific in replying to questions about the level of Soviet arms possessed by the Polisario forces. But he said, "We have weapons from America, Russia, Belgium and France — wherever we can get them." He said many of the arms and other equipment had been captured from the Moroccans and the Spanish before them.

According to Abdullah Madjid, the Polisario Front's representative at the United Nations, a capital has been established in the northern city of Hauza, on the Seguia River, where the water supply makes cultivation possible.

The Polisario officials said that Hauza has not been under attack by Morocco since 1979. They said this had allowed the people of the region to begin to develop some small industries and to create a modest revenue base.

Mr. Hakim said that the economic development of the Western Sahara — including exploitation of the area's large and potentially lucrative phosphate reserves and the creation of a fishing industry — could thus be undertaken in cooperation with Morocco. He said that the Polisario Front would have no problems in working with the Moroccan king in development of the region.

A Swiss-educated lawyer who speaks several languages, Mr. Hakim said he hopes for close ties with Western Europe, particularly in economic development.

"We would be part of the Third World, but with the right to determine our own alignment," Mr. Hakim said. "In our constitution it says that Islam is the base of the state. Private property exists. The Polisario is not Communist."

Rallis Emphasizes Need For Greek Ties to West

By Marvine Howe
New York Times Service

ATHENS — Former Premier George Rallis has urged his successor, Andreas Papandreou, to maintain traditional ties with the West, arguing that to do otherwise would harm Greece's interests.

Opening the debate Monday night on the Socialist government's program, Mr. Rallis, leader of the conservative opposition, accused Mr. Papandreou of an unrealistic foreign policy, an unworkable policy of socialization and undemocratic practices in taking over the administration.

On Sunday night Mr. Papandreou had announced his government's program, which includes the phased withdrawal of U.S. bases, the renegotiation of Common Market membership terms, the unilateral removal of nuclear weapons and a threat to abrogate the 1980 agreement on Greece's return to the military wing of the North Atlantic Treaty Organization.

Western diplomatic sources stressed that it was generally reassuring that Mr. Papandreou was not prepared to make any immediate break in Greece's relationships with the United States, Europe and NATO, but, on the contrary, specified negotiations on every point.

Passage Expected

The Socialist government's program, which on many points is deliberately vague to allow room for negotiations, faced a vote of confidence Tuesday night. The program was expected to pass Parliament easily, since the Socialists have a clear majority.

In Monday night's debate, Mr. Rallis warned that if the government pursued its announced foreign policy, "it will only lead to adventures and dangers." He said that it was membership in NATO that had enabled Greece to achieve "the maximum high military standard it has today."

On Mr. Papandreou's plans for the removal of U.S. bases, Mr. Rallis declared: "We believed and still do that keeping the bases here benefits our nation as well." He said that Mr. Papandreou's conditions for their continued operation were the same as those of the previous government, which had also insisted on the right to abrogate the agreement.

Bangladesh Swears In Its New Vice President

Reuters

DACCA, Bangladesh — Former Finance Minister Mirza Nurul Huda was sworn in as vice president of Bangladesh on Tuesday by the country's new president, Abdus Sattar.

The choice was President Sattar's first major decision since his election Nov. 15 to succeed Ziaur Rahman.

The Associated Press

Attorney Robert Bryan, left, goes over the ground rules with state police archivist Cornel Plebani at police headquarters in West Trenton, N.J. Some of the many boxes of trial evidence in the Lindbergh case are in the foreground.

New Jersey Police Open '32 Files In Lindbergh Son's Murder Case

Washington Post Service

WEST TRENTON, N.J. — New Jersey state police have opened the files on the 1932 kidnapping-murder of Charles A. Lindbergh Jr., giving the public a look at more than 90,000 documents and pieces of evidence that have been sealed for nearly 45 years.

The file was ordered opened by Gov. Brendan T. Byrne early last month, after a Freedom of Information Act lawsuit was filed on behalf of the widow of Bruno Richard Hauptmann. Hauptmann was executed in 1936 after being convicted of kidnapping and killing the son of the aviator Charles A. Lindbergh and Anne Morrow Lindbergh. The boy's body was found in May, 1932.

Robert Bryan of San Francisco, the attorney representing Anna Hauptmann, 83, of Yeadan, Pa., says the evidence contains information that could vindicate her late husband. Mr. Bryan has filed a civil suit on behalf of Mrs. Hauptmann, seeking $100 million in damages from current and past state officials.

The evidence from the 1932 case was displayed Tuesday in two caged areas in the state police headquarters in West Trenton after the files were opened on Monday. It included a photograph of the decomposed body of a child that Lindbergh had identified as his slain son.

Britain to Shut Gibraltar Naval Yard And Reduce 'Rock's' Air Operations

United Press International

LONDON — Britain, as part of its policy to pare military spending, is to close the naval dockyard on Gibraltar, the Ministry of Defense has announced.

Minister of State Peter Blaker said Monday that the closure, which would mean the loss of 1,000 jobs on "The Rock" and in Britain, would take place at the beginning of 1983, with preparations beginning next year.

"The final date of closure will depend on consultations to determine whether the dockyard can be operated in some commercial fashion," a ministry spokesman said.

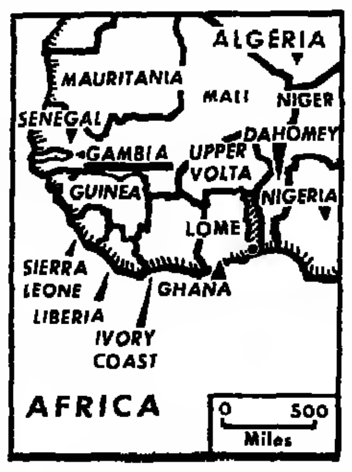
The government also announced reductions in the operating hours of Gibraltar's Royal Air Force base, to make it "more in keeping with military purposes."

Gibraltar's naval base, in existence for 277 years, will continue to operate, but ship repair services are to be terminated. The closure is in accordance with provisions for naval cutbacks outlined in August by Defense Minister John Nott.

Gambia's Democracy, Economy Strained by Recent Coup Attempt

By Thomas Kamm
International Herald Tribune

BANJUL, Gambia — It has been almost four months since President Dawda K. Jawara, with the help of 2,000 troops from neighboring Senegal, was reinstalled in State House a week after rebels attempted to overthrow him and install a Marxist-Leninist regime while he was in London for the wedding of Prince Charles.



AP

During that week, Gambia, which tourist brochures describe as "a peaceful country in transition towards modernity," was the scene of terrifying violence and ludicrous events — the coup leader frantically and unsuccessfully searching for the telephone number of the Libyan leader, Col. Moamer Qadhafi; the rebels opening the jail doors and arming anyone who wanted a gun. The coup attempt, according to official sources, caused nearly 1,000 deaths and millions of dollars of damage and shattered this tiny West African state's image of tranquility and stability.

Today, were it not for the discreet presence of Senegalese soldiers and a midnight-to-6 a.m. curfew, a visitor to the capital of Banjul would scarcely believe that anything had happened. But the drawn iron gratings on Buckle and Wellington streets hide devastated shops, and the business-as-usual attitude by the government and population belies deep soul-searching.

Always an Exception

"On paper, Gambia should have been the last country to undergo this. It didn't deserve it," a British resident said. Bakary Darbo, the recently appointed minister of information and tourism, declared in an interview that the coup and attendant violence were "out of character with the country's image."

On a continent where the one-party system is the rule, where elections, when held, are often rigged, where political arrests are common and military coups frequent, Gambia was an exception. Sir Dawda has been consistently returned to office through elections since 1965, the opposition is represented in Parliament, the judiciary is independent and the president has long been an advocate of democracy and human rights.

But if these facts are exceptional, the reasons given by Kukoi Samba Sanyang's short-lived National Revolutionary Council for its action and the motives ascribed to the coup by foreign analysts are the usual African fare: corruption, nepotism, mismanagement, tribal animosity, economic deprivation.

"Politically this coup should have succeeded, because it fed on genuine discontent which still exists since nothing has been done to alleviate it," said a knowledgeable Western businessman. "Had it been better organized, had Kukoi been more mature politically, had he not mentioned Marxism-Leninism, had he not freed the prisoners and armed everybody, had he quickly set up a government, it would have worked. There would have been a legal government, order, and [the coup leaders] would have spoken in the name of the people. Then the Senegalese could not have intervened."

Many Gambians regard the coup as a rupture in their history. "The coup will never be forgotten," an official said. "It has become a point of reference. People don't talk about before and after colonialism anymore, but before and after the coup." Sir Dawda, however, appears to treat it as but an eight-day episode in the country's 16 years of independence, according to Ebou Taal, the permanent secretary of the Ministry of External Affairs.

In a press conference upon his return to Gambia, Sir Dawda stated that the coup attempt "will not make me relinquish my lifelong belief in democracy, in fair play and in human rights."

There is some doubt, however, as to the future of multiparty democracy. Sheriff Dibba, the leader of the main opposition group, is in jail, suspected of complicity with the rebels. "In theory it is still a democratic country with an opposition," a Western diplomat said, "but the opposition has no voice. I doubt it will ever get back to democracy as it was before."

The Senegalese intervention, justified by a 1965 Mutual Defense and Security Agreement that allows Senegal to send troops if it feels its national security is endangered, has also raised doubts about Gambia's sovereignty. Except for a small promontory on the Atlantic Ocean, Gambia is surrounded on all sides by Senegal, which is nearly cut off from its food-rich province of Casamance by this enclave.

The two countries signed a pact on Nov. 14 creating a confederation called Senegambia. Under the plan, Senegal and Gambia will remain sovereign states but will integrate their security forces and communications network, coordinate their foreign policies and form an economic and monetary union, including common customs regulations.

But Senegal is seen as the main benefactor of such an alliance. "It is difficult to see Gambia continue to exist as a truly sovereign nation after what happened," a Western diplomat said. "I don't see how you can have a confederation when one state is so superior in all respects. The Gambians have no cards in their hands."

The common customs regulations, which the Senegalese had been seeking for many years, are sure to raise objections in Gambia. But they are seen by diplomats as the price Sir Dawda has to pay for having his government saved by Senegal.

Because of its favorable import duty, Gambia, through trading firms based in Banjul, imports much more than it consumes. The surplus is re-exported clandestinely to neighboring African states, depriving them of customs levies. Senegal claims to incur great financial losses because of this practice, which it calls smuggling but which businessmen who are involved in it call "transit trade." This trade is one of Gambia's main economic activities.

The coup has already brought things to a standstill. The warehouses of most of the trading firms were devastated, and they were not insured against civil strife.

Peanut production, which accounts for 70 percent of export earnings and a sizable part of government revenue, dropped by two-thirds in the past two years because of sparse rainfall.

Sylvie Vartan Succeeds As Disciplined Singer

By Michael Zwerin
International Herald Tribune

PARIS — In a recent poll conducted by the magazine L'Express, teen-age girls voted Sylvie Vartan as the most-admired woman, after their own mothers.

"I was surprised. After their mothers. Gee. I don't know how to take that," she said in the salon of her two-story home in Villa Montmorency, an enclave of small houses with gardens on the edge of Paris. "I don't know why. Maybe it's because they think I have succeeded in doing what I wanted, and that's everybody's dream when you're young."

One answer might be a performing style that combines rock with a music-hall, variety flair, appealing across the generation gap to draw audiences made up in large part of family groups of youngsters and parents.

The gray light made her seem even blonder than usual, blond-on-blond. She appears to have no eyebrows. Her English has a soft Slavic accent; she splits her time between Paris and Beverly Hills. "It's not bad," she laughed. "Not a tough life is it? Yeah, lucky."

But she has achieved success at some psychic cost. She is known as "iron-willed," a perfectionist. She rehearsed with the 12 dancers and 21 musicians supporting her 2½-hour, Las Vegas-style, song-and-dance extravaganza for three months before their current Nov. 23-Jan. 3 run in the 4,500-seat Palais des Sports. The show is already sold out through Dec. 5, her press representatives report.

"Discipline is very important for me," she said. "It's awful. Everything can be only one way, you know. It reflects in my career, in my way of approaching my shows, my house — everything. I must be organized. I have to have order. Otherwise I'm lost, I'm panicking."

She was born in Iskretz, Bulgaria, and her family emigrated to France in 1952, when she was 8. Her brother Eddie Vartan, who now produces her recordings, became a jazz trumpet player. One of his friends, Frankie Jordan, needed a little girl's voice for a record he was making. The record "Panne d'essence" (Out of Gas) was a hit and Sylvie signed with RCA a few weeks later.

In the early '60s, Life magazine named her "teen-ager of the year" and Variety called her "No. 1 French vocalist." She made her big splash about the same time as French super-rocker Johnny Hallyday. They were among the first to record French-language versions of American rock 'n' roll hits such as Gene Vincent's "Say Mama" and Roy Orbison's "Pretty Woman."

When she and Hallyday were married, the French press treated it like a mating of gods — these two tinsel-blond sex symbols united. They combined their shows for awhile, performing for several hundred thousand people in one of Paris' biggest squares, Place de la Nation, and selling out the Olympia music hall.

But it was a rocky marriage. They spent less and less time together. Hallyday likes to live in the fast lane. They led their personal lives in public, exchanging messages in published memoirs. "It's Sylvie I still prefer," he wrote after they were separated. "She is the star of the little movie of my life."

They were divorced last year. The cover story of the current issue of the mass-circulation weekly Jours de France quotes her: "If he called me for help, I'd still go. If I called him, on the other hand, I'm not so sure he'd come. I only know one thing and that is I would never call him no matter what."

A dance studio bearing her name opened in Paris last September. She moves between her two homes with her mother ("Wherever I go she follows, I'm very lucky and so is she") and 15-year-old David, her son with Hallyday. ("We promised never to publish a photo of our child," he said. "I kept my word, she did not. I'm disappointed.")

She will take her current show to the United States in 1982: "But it will be shorter, because nobody plays two and a half hours in the States. There it's one hour maximum. It's gonna be easy work for me. Just vacation."

Henry Barouh, Sygma

Singer Vartan at Palais des Sports in Paris.

Ball Raises £50,000 For U.K. Royal Opera

By Jane Wilkens Michael
International Herald Tribune

LONDON — When most *grand dames* turn 50, the last thing they want to do is make a big deal about it. Not so the Dorchester Hotel. To celebrate its golden jubilee and perhaps to show off its new $20-million face-lifting, the London landmark combined forces with the Royal Opera House Monday night to throw an anniversary banquet and masked ball. Proceeds of the £100-a-plate dinner went to the Royal Opera House development fund.

Princess Margaret, who is, among other things, president of the Royal Ballet, headed the guest list. The Royal Ballet is celebrating its 25th year under that name, and the Royal Opera — the other prominent resident of the Royal Opera House, Covent Garden — gave its first performance 35 years ago this month.

Need for Improvements

Apparently, the horrendous backstage conditions and decor of the 1940s remain in the '80s. "And," says Patrick Spooner, director of the Royal Opera House Development Appeal, "we need about £500,000 to improve facilities for the artists and staff by building new rehearsal studios and dressing-rooms and providing sufficient storage space." Although some of the women attending Monday night's gala might have spent more for their masks than on the required contribution, the evening brought in £50,000.

Hosting regal balls is not foreign to the Dorchester. "Some of the more memorable occasions here were Prince Philip's bachelor party, the pre-coronation breakfast for Queen Elizabeth, and three state banquets all given within a year, by King Faisal of Saudi Arabia, President Ayub Khan of Pakistan and King Hussein of Jordan," general manager Udo Schlentrich said. "It was at Hussein's dinner that the queen mother, upon seeing a decoration of live fish swimming through lily plants, remarked: 'Had I known, I would have brought my rod.'"

No Monarchs on Hand

While no reigning monarchs were in attendance this time, the guests Monday night had more titles than the Library of Congress. Among them were the Earl and Countess of Lichfield; Sir Claus Moser, chairman of the Royal Opera House, and Sir Joseph Lockwood, chairman of the Royal Ballet. It seems even the titled have their problems these days: One 6-foot-tall aristocrat told her table that she is constantly asked to take down paper towels from the top shelf of the supermarket.

Fashions ranged from classic velvet and ruffles to calf-length pants and sequins. The choices of masks were more creative: Some opted for plain black on a stick handle, others matched a dress pattern. A few looked as if they had been chosen in haste. A man from Dallas, for example, somehow ended up with feathers and war paint. Princess Margaret, looking tan and thin in a green taffeta gown, wore a jeweled mask that covered her eyes and continued on to her forehead with scatterings of diamonds in her hair. "A little like a chandelier," said one guest. The only thing that seemed uniform in the dress code was the diameter of the jewelry — each stone being about the size of a tea sandwich.

The ball was the first held in the newly refurbished ballroom of the hotel. Here, royal blue walls, mirrors, crystal and a fountain on the dance floor brought back glories of empire lost. The dinner was appropriately operatic. Prepared by Anton Mosiman, the hotel's 34-year-old maître-chef de cuisine, it consisted of a prelude: rosette of smoked salmon with mousse of trout Dorchester; an intermezzo: consommé of beef Aïda; an aria: veal medallion Royal Opera, and the coda: soufflé glacé Covent Garden.

Raffle Prizes

Coda calories were worked off by after-dinner dancing, while the concluding event was a raffle for £25,000 worth of prizes. Not a typical bingo haul, these included an opera or ballet performance and champagne dinner for six, with the winners sitting in the royal box; a weekend in Marbella and two hours of tennis lessons, and a gold and diamond watch.

Princess Margaret stood in the center of the floor and dipped her hand into the raffle drum to pick the winners. Among the lucky ones was a nephew of King Hussein, who won a weekend in Paris.

This is said to have been the first masked ball in London in 60 years and all agreed it was a success. The Dorchester could also breathe a sigh of relief. In 1856, the Royal Opera's predecessor held a masked ball in its theater on the same Covent Garden site that the present opera house occupies. A piece of scenery fell into an oil lamp at the end of festivities and the building burned down.

Movies: Fassbinder's 'Lola' Lacks Real Life

By Thomas Quinn Curtiss
International Herald Tribune

PARIS — Rainer Werner Fassbinder says that his "Lola" is oot a remake of "The Blue Angel," and in an interview he has outlined the genesis of his latest work, beginning with a proposal that he adapt for the screen Heinrich Mann's novel, "Professor Unrat," the source of "The Blue Angel."

The novel recounts the downfall of a tyrannical high-school teacher of imperial Germany, picturing the petty pedagogue as despicable and his destruction as a triumph over menacing evil. The famous film of Josef von Sternberg altered the scene to a town of the Weimar Republic and the professor, unforgettably impersonated by Emil Jannings, became a pitiful victim of cruel circumstance with his disintegration a tragedy of compelling force.

The Mann oovel did oot appeal to Fassbinder as film fodder and he has amended the narrative to concentrate more on the destructive woman than on the destroyed man. As the 1900 background of the book was not to his liking or comfort he has set the revised version in 1957, when the rebuilding of West Germany brought on an economic boom. To stress the time and place a photograph of Chancellor Adenauer is displayed at the start and at the finish, apparently a slur at his administration.

Replacing the powerful sex drama of "The Blue Angel" is a melodrama about financial corruption in which an upright director of public works — Professor Unrat transformed into a government official — uncovers graft in the reconstruction deals in a provincial city. An unworldly fellow, he mistakes a cabaret hostess for a fine lady and, falling under her fatal spell, cannot liberate himself even when he discovers that she is the mistress of an influential local crook. Her hold on him halts his intention of exposing the flagrant dishonesty, his marriage to her binding him to silence.

The name of the nightclub singer, Lola, is all that remains of "The Blue Angel" and even the song of that title, memorably delivered by Marlene Dietrich, has been omitted. Indeed, the raucous din heard in the cabaret is of ghastly realism and Barbara Sukowa's siren is naturalistic in interpretation. Armin Mueller-Stahl as the good man gone wroog and Mario Adorf as the blustering, ruthless cad who has the town in reconstruction in his iron grip are competent actors, but the scenario of Peter Märthesheimer and Pea Fröhlich weighs a ton and neither Fassbinder's dialogue nor direction can bring it to vivid dramatic life. (At the Marignan-Concorde Pathé, the Hautefeuille Pathé and the Gaumont Les Halles in German.)

* * *

"Das Boot," tracing the history of a Nazi U-boat early in World War II, is a large-scale German screen epic. Based on Lothar-Guenther Buchheim's best seller, its realization has been as costly as a major Hollywood product and it is a box-office hit of phenomenal proportions in West Germany, Austria and other German-speaking areas.

Barbara Sukowa in title role of "Lola."

The two-hour film begins at La Rochelle in 1941, when the French port was under Nazi occupation, with a crew awaiting the arrival of a new submarine. The sailors, a devil-may-care lot who, due to their dangerous assignments are liberated from rigid discipline, carouse in the bars and show scant respect for their cause; the enemy song "It's a Long Way to Tipperary" is one of their caterwauling favorites, and they refer to the Führer in uncomplimentary terms. Their wild behavior and irreverence reveals that they are brave tars, unconverted to Nazi doctrine.

Wolfgang Petersen in directing has imposed a documentary quality on all that happens. There is an authentic feel to his depiction of the existence aboard the U-boat: the monotony in restricted space, the sense of ever-present dread, the panic when the men are ordered to sudden duty. The action builds very slowly, too slowly; first the minor skirmishes, then a successful attack on a ship, followed by a short leave in a Spanish harbor. In the second half the pace is increased with the submarine, attempting passage through a fleet of destroyers, coming under aerial fire and suffering serious damage. Repaired by happy chance, it heads on to an unexpected fate which brings the film to a spectacular climax.

In its staging of sea battles and in its delineation of the underwater sailor's life, "Das Boot" is a cinematic achievement of high merit. It falters, alas, in neglecting to individualize its characters into more compelling and distinctive personalities.

'The Mousetrap' Is 29

United Press International

LONDON — Agatha Christie's everlasting stage play "The Mousetrap" is 29 years old today. Tonight's performance will be No. 12,065. More than 5 million customers have seen it, and during the single nightly intermission they have eaten 212 tons of ice cream.

Oregon Woman Building A 'Self-Cleaning House'

By Charles Hillinger
Los Angeles Times Service

NEWBERG, Ore. — Frances Gabe, 67, has invented what she believes is the ultimate in women's liberation — a self-cleaning house.

"For God's sake, why should women waste half their lives cleaning the house? It's damn foolishness," she insists.

She has applied for 68 patents on devices in her self-cleaning house, which she is in the process of building on her 7½ acres.

"All a woman has to do in the self-cleaning house is push a series of buttons and zowie — the work is done," Gabe explains.

Floors, walls, ceilings, furniture, doors and windows are sprayed with soap and water and washed clean. Floors are sloped to all four corners to carry away runoff. Blowers do the drying.

Floors, doors, walls and ceilings are coated with resin finish. Furniture is made of a composition invented by the "Self-Cleaning Woman."

"No carpets in this house. Carpets are dust collectors. I hate them," she says.

She has a new wrinkle for washing dishes.

"Why waste time loading a dishwasher, then unloading it and putting the dishes in the cupboard?" she asks, then answers: "Why can't dishes be washed in the cupboard as a time-saver?"

She would stack the dishes used every day in a dishwasher cupboard.

There are self-cleaning sinks, tub, shower and toilet. A fireplace where ashes are washed down a drain. Self-cleaning pots and pans.

A closet replaces a washing machine. Hang the clothes up, push a button and the clothes are washed and dried while hanging in the closet. Even the cats and dogs are washed and dried by pushing a button.

Gabe expects to finish her self-cleaning house in a year. Currently, she is building the walls of concrete blocks and windows with 7¼-inch space for dead air, which she says is the perfect insulator.

"Be careful — you are on a construction site," she warns on entering. The house is her workshop, jammed with cement mixer, lathes, bench saws, planes, hammers, wrenches, screwdrivers and nails.

Gabe is doing it all by herself, but will it really work?

"I have been a builder all my life. My father was a builder, so is my ex-husband," she explains.

"I'm trying to take a lot of misery out of life. I want to leave the world a better place," the inventor says.

She spends much of her free time promoting her self-cleaning house to colleges, women's organizations and service clubs.

"What's the fun of cleaning house? It just gripes me every time I dust, scrub floors and clean walls," says the Self-Cleaning Woman.

EUROMARKETS

INTERNATIONAL
Herald Tribune
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PARIS, NOVEMBER, 1981

PART II
A SPECIAL SUPPLEMENT

Eurobond Market Has Seen the 'Year of the Dollar' in '81'

By Carl Gewirtz

PARIS — For the Eurobond market, with a record-shattering $28.3 billion worth of new issues floated in the first 11 months of the year, 1981 has been the Year of the Dollar.

Not since the pre-devaluation days of 1967 has the U.S. dollar accounted for so large a portion of overall new business as it has this year — 86 percent compared to 89 percent 14 years ago. In the interim, according to data published in Morgan Guaranty's monthly World Financial Markets, the dollar sector of the Eurobond market had tumbled to a low of 44 percent.

The explanation for the renewed popularity, of course, lies in the record-high interest rates offered on dollar securities and the resulting rebound of the dollar on the foreign exchange market, making it a "strong" currency for the first time since the debilitating days of the Vietnam War.

The wonderment is not that the dollar should have gained favor under these conditions, but that the volume of new issues could be so high — topping the $23.97 billion floated in all of 1980 — when the coupons borrowers were forced to offer were so high.

Real Interest Rate

Not only are coupons high, but most importantly the real rate of interest — for so long negative on dollar securities — was also a record. Coupons on dollar Eurobonds have breached 17 percent while the dollar's purchasing power is currently eroding at half that rate — obviously no deterrent to companies sorely in need of cash who would have to pay even more to borrow, short-term from their banks at the prime rate or higher.

Another point worth noting is the return of U.S. companies, who so far this year account for about 20 percent of total new issues. This compares with as little as 8 percent only three years ago and a low of 3 percent set in 1975. In the early days of the market's history, when U.S. controls on investment outflows forced companies to find finance outside the United States for their international expansion, U.S. companies accounted for 60 percent of total Eurobond business.

Their return to this market, which began in 1979 and has increased each year since, is a reflection of the extreme volatility of bond markets everywhere.

Once considered the haven for the savings of orphans and widows, investing in bonds has become almost as risky as stock markets — without the potential reward of huge capital gains inherent in stocks. The credit policy of the United States, reflected with some delay by other governments, has vacillated since 1979 between bouts of fighting inflation and fearing recession with the result that each new burst of "go" was followed by a new, more stringent "stop" marked by yet higher levels of inflation and new highs set in interest rates.

As the "go" was flashed, bond markets would reopen and investors would rush to buy high-yielding securities carrying fixed-rates widely perceived to be record highs. The subsequent "stop" saw rates pushed higher yet, eroding the value of older issues and disillusioning investors.

Peak Seen

At present, with interest rates easing from their late summer highs, many analysts believe the peak in rates has been set and it is downhill from here. A minority warn that a new "stop" and record high interest rates lurk next year.

Amid this stop-go confusion, bond markets shuttered and reopened with alarming frequency and speed — and only the most nimble borrowers were able to raise the cash they needed. Underwriters would talk about "windows" opening in the market, enabling issues to be marketed, and then slamming shut.

So speed in coming to market became a critical factor in launching new issues, and speed is something the Eurobond market offers that New York, for example, cannot match, given the requirement to file a new securities issue with the Securities and Exchange Commission.

The Eurobond market's speed was accelerated when issuing houses "bought" an entire new issue — set the coupon and subscription price in private with the borrower and then tried to market the paper. However, by that time, the conditions offered to investors often are no longer sufficiently attractive and managers have been forced to

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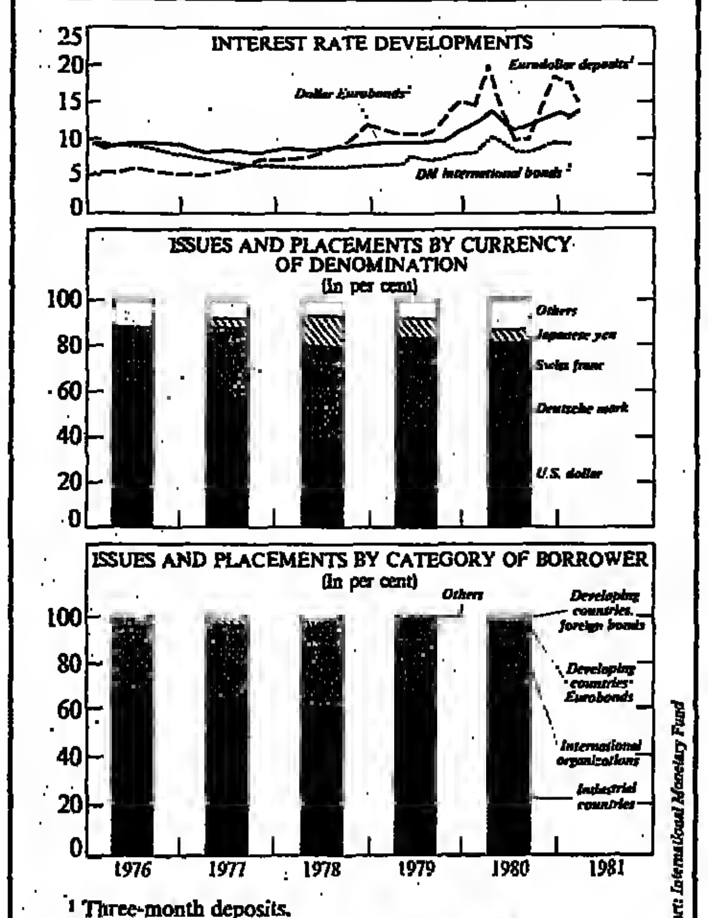
Developments in International Bond Markets, 1976-80



[1] Three-month deposits.
[2] Bonds with remaining maturity of 7 to 15 years.

Chart: International Monetary Fund

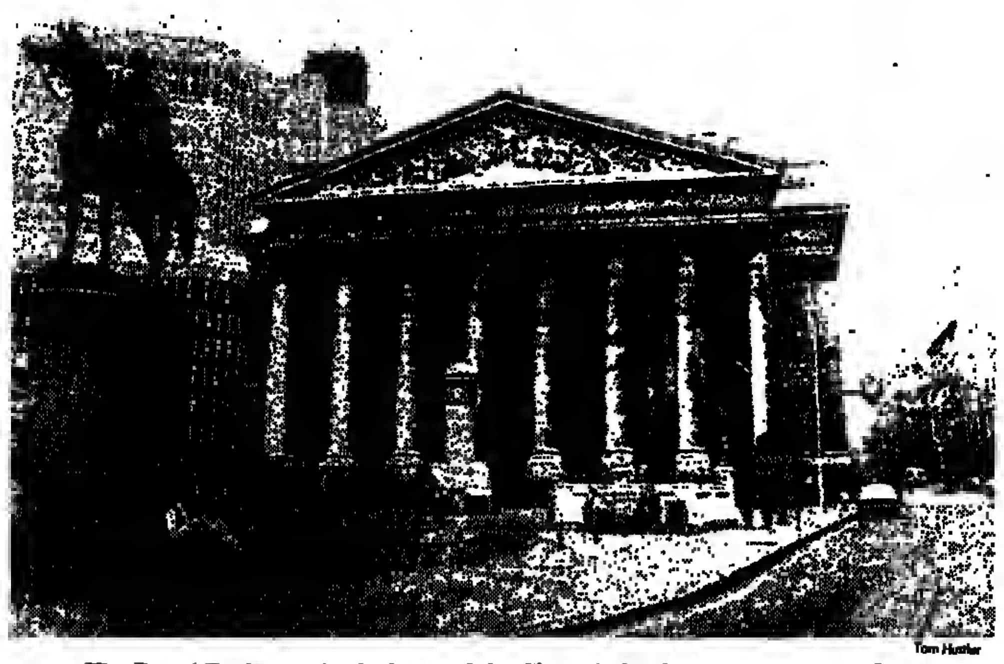
London Gears Up for Financial Futures Mart

By Michael Jenkins

LONDON — Forward transactions have been used for many years to limit risk. The Eurocurrency market, in particular, has created special arrangements — for example, forward transactions — to insulate participants against the volatility of Eurodollar interest rates.

Similarly, swaps enable participants to cover their exchange rate exposure. But the advent of futures markets offers additional advantages and greater flexibility. Many of the attributes of a futures contract are similar to a forward contract — both parties undertake to buy or sell a specific instrument (e.g., gilt-edged stock), or a currency, on a known future date at a specific price. However, a futures contract differs from a forward contract in that it is standardized and is traded on a recognized exchange.

This characteristic, together with the central role of the Clearing House as guarantor of all contracts, facilitates an active secondary market enabling buyers and sellers to close out their positions before the contract matures. This highlights one of the features of futures markets — delivery is rarely made. The buyer is not normally interested in taking delivery; his concern is to hedge a position in the cash market by an equal and offsetting position in futures. Therefore if the price in the cash market changes, any losses he incurs will be offset by a gain from his futures position.



Tom Hustler

The Royal Exchange, in the heart of the City, will be the home of the LIFFE.

To date, the principal markets for trading financial futures have been in the United States, largely as an offshoot of the commodity markets based in Chicago. For some time, interest by the London financial community has been increasing which has led to support in establishing such a market in London. As well as being of great value and convenience to British-based institutions, it is expected that such a market will attract a considerable amount of business from continental Europe, the Middle East and Far East, and this will enhance London's predominant role in the world's money markets.

During 1980, a working party examined the feasibility of establishing a market in London and its proposals were widely discussed and supported. In February of this year, the Bank of England approved the plans in principle, and in May the London International Financial Futures Exchange (LIFFE) invited applications for the first tranche of about 200 seats. The successful applicants — the invitation was heavily oversubscribed — represent a wide spectrum of the financial sector, with about a third representing the banking community, a further third commodity firms and the remainder drawn from stockbrokers, money brokers, discount houses and individuals. A second invitation will be made next January when a further 185 seats will be on offer. Trading will start next autumn.

The structure of the Exchange and the contracts to be traded have been designed specifically for the London market. The rules will reflect local laws and practice, and clearing will be undertaken by the International Commodities Clearing House, an independent clearing organization which has international experience in many fu-

(Continued on Page 13S)

Budget Deficits And World Markets

By S.J. Lewis

LONDON — One of the most important consequences of the rise in oil prices in the 1970s is also one of the least noticed. The governments of the major industrial nations, which prior to the first oil price shock in 1973 had typically aimed at, and often achieved, balanced budget positions, have come to regard budget deficits as normal. Deficit financing has been both a reflection of, and a policy response to, the depressed economic conditions in the industrial countries that have been partly brought about by the rise in oil prices.

Although the current U.S. administration aims to balance the federal budget by 1984, the measures it has taken so far do not promise to achieve this target. In any case, the federal deficit in recent years has represented a declining proportion of total U.S. government financing requirements, as the activities of off-budget agencies have expanded. In Europe, governments have even gone to the length of giving up the objective of balancing their budgets. Governments have increasingly competed with private sector borrowers in domestic financial markets, driving up interest rates in the process, while the international markets have grown to accommodate credit demands that could not be satisfied from domestic sources.

This trend is set to continue in the year ahead. In Table 1 (see continuation of article), we show the Phillips & Drew forecast of the fiscal deficit to be incurred by the govenments of the major industrial countries in 1982, compared with an estimate for 1981 and the outturn in 1980.

The figures shown for the United States include transactions of federal agencies, state and local governments, while the West German figures comprise federal and local government operations. International comparisons of budget deficits are more often than not misleading, because the scope of the government sector varies between countries. Nevertheless, the trend in the budget deficit in each country is significant. In 1982, the deficits in Japan, West Germany, Canada and Britain are set to fall, on the basis of present policies. In the United States and France, on the other hand, government deficits are likely to be higher in 1982 than they have been this year.

This is not the whole story, however. A rising budget deficit does not represent an extra burden on domestic financial markets provided that domestic savings rise to the same extent. It is the balance be-

(Continued on Page 12S)

N.Y. Birth of IBFs Is Awaited

By David F.V. Ashby

LONDON — Dec. 3 will be a red-letter day for the Euromarkets. A new international financial center will be born in New York, and London's traditional pre-eminence in the Eurodollar market will face its most serious challenge. With a few years, New York could rival London as the principal focus of the Eurocurrency markets.

These far-reaching changes will be the result of the establishment in New York of so-called international banking facilities (IBFs) through which banks in the United States (both U.S. and foreign) will be able to conduct their Eurodollar activities without having to route such business through financial centers outside the United States.

Paradoxically, the creation of IBFs is both a contradiction in terms and a supremely natural and inevitable development. It is a contradiction in terms because a Eurodollar is, by definition, a U.S. dollar held *outside* the United States. It is a natural development because the present system, which effectively forces U.S. banks to operate expensive overseas offices if they wish to lend their *own* currency internationally at competitive rates, is clearly artificial and anomalous. (Of course, the Euromarkets, with their freedom from regulation, are really much more "natural" than the over-regulated domestic financial markets that are the norm in most countries.) The artificiality that has forced

On Dec. 3, London will face its most serious challenge to its role as leader in the Eurodollar market.

so much of U.S. international bank lending to be conducted through offshore offices around the world derived from the high level of state and local taxes in the United States, the requirement to hold substantial reserves against deposits (Regulation D) and the ceilings on the interest rates that banks in the United States can offer on deposits (Regulation Q). By exempting international banking activities in New York state from state and local taxes, the New York Legislature removed the first obstacles to IBFs in May, 1978. The Federal Reserve, by amending regulations D and Q in June, 1981, removed the second and third obstacles and gave its blessing to a project that was first mooted as long ago as 1974 as a means of increasing the role of U.S. banks in petrodollar recycling.

Early attempts to persuade the Fed to support the IBF proposal were met with some suspicion, if not outright hostility. The Fed already suspected that the existence of the Eurodollar market had weakened its control of the domestic U.S. money markets, and it feared that to allow Eurodollar transactions to take place within the United States would weaken that control further. However, it now appears to have accepted that any leakages from the U.S. money supply into the Euromarket, or vice versa, will be relatively slight. It also seems to believe that its attempts to persuade other countries' central banks to exercise greater control over the Euromarket will carry greater weight if more of the market is located within its own jurisdiction.

Another reason for giving approval to IBFs is that they will improve the international competitive position of U.S. banks. The Fed's concern for ensuring that the IBFs really do make U.S. banks more competitive in the international marketplace is demonstrated by its attitude toward the question of the minimum period of notice that is required for IBF deposits. For interbank deposits, there is no minimum requirement; they may be on an overnight basis. But the Fed has insisted on a minimum notice of two days for the withdrawal of non-bank deposits, so that there is no temptation for U.S. corporations or individuals to use those deposits for domestic transactions.

However, this limitation is regarded by the banks as one of the principle obstacles to the full development of the IBFs as rivals to other Eurocurrency centers. So the Fed has acknowledged their concern by promising to keep this restriction under close review and to consider relaxing it if the banks do find that it inhibits their ability to compete.

Another Disadvantage

Another major disadvantage of New York compared with the established Eurocurrency centers is that the IBFs will not be able to issue certificates of deposits (CDs). In London, CDs represent a significant part of the banking system's Eurocurrency liabilities; within the last year their share of total foreign-currency liabilities has risen from 11½ percent to 13½ percent. For the U.S. banks in London, the significance of CDs is even greater; they rely on CDs to fund almost 30 percent of their Eurocurrency portfolio.

Despite these handicaps, the

(Continued on Page 8S)

Table 1: Estimated Size of the Worldwide Eurocurrency Market

(Billions of U.S. Dollars, End of Period)

	1975	1976	1977	1978	1979	1980*	1981* (March)
EUROPE-BASED MARKET							
A. Gross	351	411	517	663	847	1,019	1,041
Austria	n.a.	n.a.	8	11	15	17	16
Belgium	19	23	30	41	52	68	71
Denmark	n.a.	n.a.	2	3	4	4	4
France	52	62	80	104	127	153	147
Germany	12	15	19	23	24	24	24
Ireland	n.a.	n.a.	2	2	3	3	3
Italy	18	19	26	34	44	53	45
Luxembourg	30	39	54	72	96	106	109
Netherlands	19	24	30	40	49	56	57
Spain	3	4	5	7	11	13	13
Sweden	3	3	3	3	9	12	12
Switzerland	18	21	26	37	38	37	35
United Kingdom	178	202	231	287	377	473	505
B. Net	205	247	300	377	475	575	590
NON-EUROPEAN MARKET							
C. Gross	134	184	223	283	351	445	474
Bahamas & Caymans	62	91	106	124	139	158	165
Bahrain	2	6	16	23	28	38	40
Canada	14	17	18	22	26	36	34
Hong Kong	8	12	14	19	24	33	35
Japan	20	22	22	34	45	66	75
Kuwait	2	2	3	4	5	7	7
Lebanon	2	2	2	2	3	3	3
Netherlands Antilles	0	1	2	3	5	7	7
Panama	8	10	10	19	32	34	35
Philippines	1	1	1	2	2	3	4
Singapore	13	17	21	27	38	54	65
U.A.E.	2	3	2	3	4	6	6
D. Net	54	74	87	110	136	173	184
TOTAL WORLDWIDE EUROCURRENCY MARKET							
E. Gross (A + C)	485	594	739	945	1,197	1,464	1,514
F. Net (B + D)	259	321	387	487	611	748	774

Totals may not add, due to rounding.
*Provisional.
Source: Grindlays Bank.

N.Y. Birth Of IBFs Is Awaited

(Continued from Page 7S)

IBFs are likely to attract a significant amount of Euromarket business to New York, and it is also likely that some business will be transferred from U.S. banks' domestic books to their IBF accounts.

The Euromarket centers most likely to suffer from the expansion of IBF business in New York will be the "brass plate" branches of U.S. banks in the Caribbean. The Bahamas and the Cayman Islands together account for about 11 percent of worldwide Eurocurrency business, and the bulk of this represents transactions actually managed in the United States but labeled "Nassau" or "Caymans" in the banks' books.

The transfer of this business to an IBF, whether it be in New York or in one of the other states that have passed legislation similar to New York's (Connecticut, Florida, Georgia, Maryland and North Carolina), will require little more effort than the stroke of a pen. Its impact on the economies of the Bahamas and Caymans will be slight; relatively few local jobs are created by the quantitatively large volumes of business that is, on paper, channeled through the islands. Moreover, it is unlikely that the U.S. banks will close their Caribbean operations entirely; they will want to maintain a presence there as a precaution against a possible tightening of the IBF regulations at some future date.

Serious Consequences

But the possible loss of business to U.S.-based IBFs from other Euromarket centers could have more serious consequences, since these are genuine business centers rather than mere "brass plate" operations. Since their inception in the late 1950s the Euromarkets have been dominated by London. Despite frequent claims during the last two decades that its pre-eminence would quickly be eroded by the development of rival centers in the stronger economies of Continental Europe, and subsequently by the appearance of newer regional centers such as Singapore and Bahrain, London still accounts for no less than one-third of the entire market. It is true that this market share did slip rapidly from over 40 percent in 1974 to 30 percent in 1978, but since then London's Eurocurrency business has expanded rapidly again.

London has tremendous advantages compared with most other would-be Euromarket centers: inter-relationships with other markets (especially foreign exchange), good communications, strong backup services (such as legal advisers) and above all a convenient time-zone location and first-class backroom staff. New York can match London in most of these areas, and the strength of its foreign exchange market is a particular advantage. London's time location, with its overlap with the business days in both Singapore and the Middle East as well as in New York, cannot be matched. But New York and Miami share time zones with Latin America, and the U.S. West Coast could attract Far Eastern business for similar reasons.

So the scene is set for the battle of the Eurocurrency markets. Fortunately, the markets as a whole will probably continue to expand (although perhaps not as rapidly as before), so that there should be room for aggressive newcomers such as New York to gain a substantial share without causing the existing market centers (apart from those in the Caribbean) to contract in absolute terms. But undoubtedly the U.S. IBFs will attract substantial business, and London's pre-eminence in the markets will face its most serious challenge.

David F.B. Ashby is group chief economist of Grindlays Bank.

Table 2: Shares in the Worldwide Eurocurrency Market

(Percentages, End of Period)

	1975	1976	1977	1978	1979	1980*	1981* (March)
EUROPEAN CENTERS	72.4	69.1	70.0	70.1	70.7	69.6	68.7
Austria	n.a.	n.a.	1.1	1.1	1.3	1.1	1.1
Belgium	3.9	3.8	4.1	4.3	4.3	4.6	4.7
Denmark	n.a.	n.a.	0.3	0.3	0.3	0.2	0.2
France	10.6	10.4	10.8	11.0	10.6	10.5	9.7
Germany	2.4	2.6	2.5	2.4	2.0	1.6	1.6
Ireland	n.a.	n.a.	0.2	0.2	0.2	0.2	0.2
Italy	3.6	3.1	3.6	3.6	3.7	3.6	2.9
Luxembourg	6.2	6.6	7.4	7.6	8.0	7.3	7.2
Netherlands	3.9	4.0	4.0	4.2	4.1	3.8	3.7
Spain	0.7	0.6	0.6	0.8	0.9	0.9	0.9
Sweden	0.5	0.5	0.4	0.4	0.7	0.8	0.8
Switzerland	3.7	3.5	3.6	3.9	3.2	2.5	2.3
United Kingdom	36.9	33.9	31.4	30.3	31.5	32.3	33.3
NON-EUROPEAN CENTERS	27.6	30.9	30.0	29.9	29.3	30.4	31.3
Bahamas and Caymans	12.8	15.2	14.4	13.1	11.6	10.8	10.9
Bahrain	0.4	1.0	2.1	2.5	2.3	2.6	2.6
Canada	2.8	2.9	2.5	2.4	2.1	2.4	2.2
Hong Kong	1.7	2.0	1.9	2.0	2.0	2.2	2.3
Japan	4.2	3.6	2.9	3.6	3.8	4.5	4.9
Kuwait	0.4	0.4	0.4	0.5	0.4	0.5	0.4
Lebanon	0.4	0.3	0.3	0.2	0.2	0.2	0.2
Netherlands Antilles	0.0	0.3	0.3	0.3	0.4	0.5	0.5
Panama	1.7	1.7	1.9	2.1	2.7	2.3	2.3
Philippines	0.2	0.1	0.1	0.2	0.2	0.2	0.2
Singapore	2.6	2.9	2.8	2.9	3.2	3.7	4.3
U.A.E.	0.4	0.4	0.3	0.3	0.3	0.4	0.4

Totals may not add, due to rounding.
**Provisional.*
Source: Grindlays Bank.

Table 3: Possible Shifts in Geographical Location of the Eurocurrency Market

(Percent Shares of Gross Worldwide Market)

	1981 (March)	1985	1990
United Kingdom	33	25	20
Bahamas & Caymans	11	5	2
USA	–	12	18
Other Centres	56	58	60
TOTAL	100	100	100

Source: Grindlays Bank

Italian Bank System Seen Gasping for Air

By Barbara Donnelly

ROME — The Italian banking system, choked by a remarkable variety of bureaucratic and credit restraints and pressed by higher demand from the free-spending state sector, is gasping for air.

For the third year in a row, deposits are evaporating as customers, savvier about protecting themselves from the country's 20-percent inflation rate, have shifted funds into durable goods and high-yielding treasury notes.

The 12.7-percent nominal growth of deposits last year was only half what it was in 1975. This year, aggressive competition from treasury instruments has pared the nominal rise to 8.7 percent.

"Even the pensioners don't come to us any more," lamented the director of one small provincial bank. "And to think that up to only two or three years ago they would line up with their hats off and were content with an interest rate of 3 percent."

Three factors mainly account for the change in the pattern of money flows that has cut banks' share of overall financial savings to 52.2 percent last year from a peak of 80 percent in 1974.

First was the sharp rise in Italy's inflation rate. This was followed by the government's ineffectual attempt to curb the rise by changing the way it financed its huge budget deficit rather than cutting the size of its debt. Finally, greater economic insecurity made savers wary of tying up funds for long periods of time, which led to a drying up of the domestic market for long-term capital.

The government stepped in to take advantage of the shifting capital flows by floating high-yielding, tax-exempt and short-term treasury bills. The share of the total flow of money absorbed by treasury securities ballooned from zero in 1974 to 30 percent six years later. The volume of treasury bills currently in circulation, excluding the quota held by the central bank, amounts to more than 92 trillion lire.

What has many analysts worried is how the government will finance its projected budget deficit. The government has estimated its borrowing requirement at 50 trillion lire in 1982. However, private forecasters say the deficit may top 55 trillion lire compared with an estimated 48 trillion this year. At a recent exchange rate, oext year's deficit will be in a the order of $45 billion, which makes the problems of financing the U.S. budget deficit seem small in comparison.

Yields on the tax-exempt bills range close to 20 percent, about double the average after-tax yield on bank deposits. The erosion of deposits in favor of treasury bills is slowly forcing a breath of innovation into Italy's underdeveloped banking system.

At first glance, the Italian banking system would seem to offer customers a wide range of options and services. The country has about 1,070 banks, subdivided into commercial banks, savings banks, rural banks, cooperatives, medium-term and special credit institutions. They range from the big state-owned Banca Nazionale del Lavoro, whose deposits amount to about 40 trillion lire, to local credit institutes with less than 20 billion.

But the system is fragmented and idiosyncratic. Its operation is guided less by the needs of a modern market than by rigid and outmoded laws designed to rescue industry after the crash of 1931. The Banking Act is based on the concept that savings and investment are a function of public interest and should be overseen by the state.

As a result, the hand of the state is heavily felt in the banking industry, with public sector or state-affiliated institutions controlling an estimated two-thirds of the entire banking system and nearly 80 percent of all lending.

As top banking jobs are political plums and therefore vulnerable to party pressures, credit distribution has historically been marked by corruption and waste, while the system itself remains resistant to change.

Three of the top five banks — Banca Commerciale Italiana, Credito Italiano and Banco di Roma — are controlled by the giant state industrial conglomerate Istituto per la Ricostruzione Industriale (IRI), which was born from the crash. Of the top 15 banks, 11 are controlled by the government, which often foists the financial burdens of failing state industry onto them.

The Bank of Italy strictly controls expansion and competition within the sector and, as one banker puts it, "is more interested in stability than in efficiency."

Two special characteristics of the post-crash legislation are the concentration of long-term lending to industry in the hands of specialized credit institutions and the protection granted to small regional banks that guarantees them a virtual monopoly on local markets.

The central bank has the power to decide where a bank can open offices and, in line with policies to protect small and medium-sized enterprises, tends to safeguard the "capillary" structure of the banking system. This provision has markedly curtailed the expansion of foreign bank activity, which is mostly limited to serving the multinationals in Italy.

Banking laws forbid mergers but credit restraints and higher competition in urban markets has forced more banks to cluster together in consortia to stay afloat. Private banks tend to be controlled by one of the few big financial empires, or which Roberto Calvi's Banco Ambrosiano-Centrale group or Carlo Pesenti's Italmobiliare group are prime examples.

Conservative Habits

The rigid structure of the Italian banking system is also said to reflect the fundamentally conservative financial habits of the Italians themselves. The development of national capital markets has long been stunted by the preference to bank locally, among friends. Though there are thousands of Italian companies whose shares are traded — mostly among other local businesses and banks — the country's leading bourse, in Milan, lists only 125.

Private savers, leery of the big insider-controlled stock and bond markets where they have been burned in the past, effectively end up being the captive clientele of local savings banks. This insures a steadily profitable business but creates little incentive to upgrade services or offer favorable interest rates.

Despite inflation-spurred investment in durable goods or other savings instruments, the savings rate of the average Italian family as a quota of income still is second only to the Japanese.

The leading savings bank, Cassa di Risparmio delle Provincie Lombarde (Cariplo), and the leading cooperative bank, Banca Popolare di Novara, are among the world's largest.

The scarcity of risk capital has also caused the banking sector to play an exceptionally important role in corporate finance. Long-term lending to industry by regulation tends to be concentrated in the hands of seven or eight of the leading medium-term and special credit institutions.

Expanded Activities

Among the most active io the sector are Istituto Mobiliare Italiano (IMI), the industrial financing arm of the government, and Isveimer, the development bank for the depressed southern Mezzogiorno region. The four medium-term eredit institotes — Mediobanca, Efibanca, Interbanca and Centrobanca — also play an important role. Among the smaller regional credit instimtes, the leading Mediocredito Regionale Lombardo has remarkably expanded its activities in the sector over the past few years.

Though it is generally realized that Italy's strict banking regulations, especially those involving long-term credit, need thorough overhauling, progress is slow and inadequate to meet the needs of the increasingly sophisticated Italian market. There is strong resistance to change from those who feel favored by existing regulations.

But the erosion of deposits and narrowing profit margins, particularly among commercial banks, are forcing banks to boost efficiency and competitiveness. A new range of "para-banking" services are flourishing in Italy under the aegis of single banks or consortia. Among the leaders of the trend are Banca Nazionale del Lavoro's leasing and factoring units. Bankers' acceptances, which until recently were tax-exempt, also have been booming.

There is still a long way to go for Italian banks to become fully part of the industrialized world, bankers admit. Besides market pressures, a European Economic Community ruling that will impose free competition on the system by the end of the decade may help things along.

Barbara Donnelly is a Rome-based financial journalist.

EUROMARKETS

Banker Sees Rise in Mark

WASHINGTON — Walter Seipp, chairman of the Commerzbank, expects the Deutsche mark to go up against the dollar, reaching 2.20 to 2.30 DMs to the dollar before the end of the year.

Mr. Seipp added that the mark would also move up against the French and Belgian francs, the Danish krone and the Italian lira inside the European Monetary System.

The mark's recovery follows its recent slide against the pound, yen and dollar, which boosted West German export competitiveness. By mid-1981, export orders were up 19 percent from the mid-1980 level, Mr. Seipp said. "The boost to the trade balance will bring down the large deficit on current account," he added, "with a subsequent favorable impact on German interest rates, following major increases at the end of last year, culminating in the introduction of a special 12 percent Lombard rate by the Bundesbank this February."

The inverted structure of interest rates over 26 months, with short-term rates lower than long-term ones, had caused major difficulties to banking and business, he pointed out.

Current Account

Commerzbank's forecasters, Mr. Seipp said, see West Germany's current account deficit dropping from 30 billion DM 1980 to 22 billion DM in 1981, and 10 billion to 15 billion DM in 1982, with a sharp drop in oil consumption being a key factor. The public sector deficit, up from 56 billion DM in 1980 to reach 72 billion DM in 1981, would decline to 62 billion DM in 1982.

But unemployment, inflation and falling profits will continue to pose problems, he warned. Real gross national product, according to the Commerzbank's calculations, could actually drop 1 percent in 1981, but increase by 2 percent in 1982.

With 600 million DM in unguaranteed loans to Poland, Commerzbank is probably among the most highly exposed of West German banks, but Mr. Seipp said he was confident that arrangements would continue to be made enabling Poles to pay interest on foreign loans, while postponing repayment of principal.

—VANYA WALKER-LEIGH

Eurodollar FRNs: Judging Performance

By Jeffrey Hanna

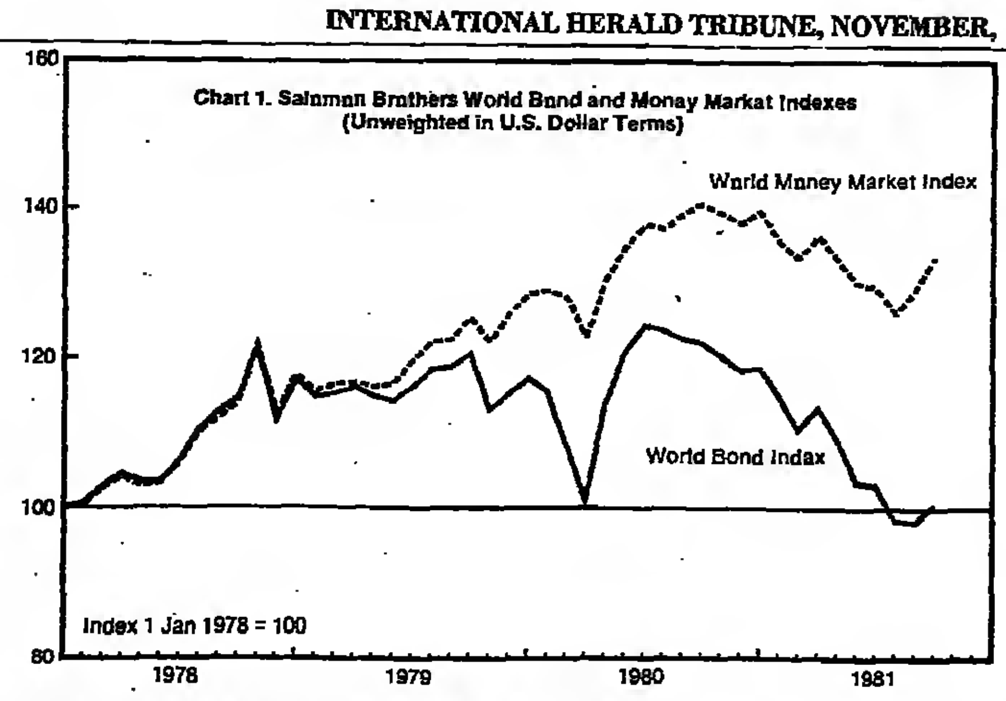
NEW YORK — In recent years, international bond markets have been buffeted by a seemingly inexorable upward trend in interest rates, which has produced severe losses in bond capital values. Virtually all international sectors — Eurobonds and foreign bonds denominated in the principal currencies — set postwar yield records in 1980 or 1981. The net result is that total return performance (including income, bond price changes and currency gains or losses) has been abysmal.

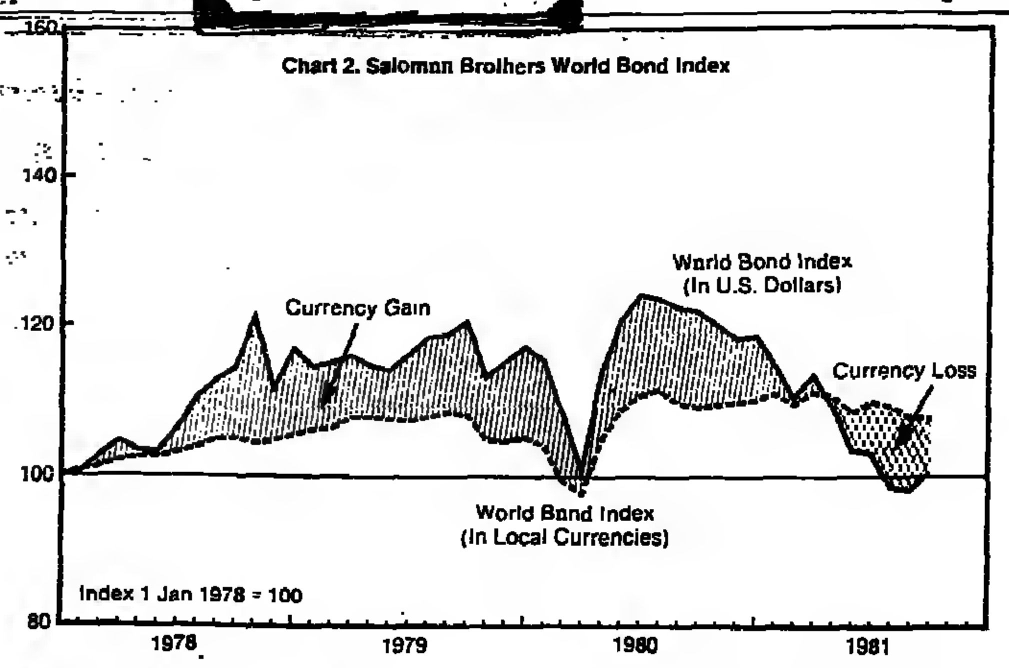
Chart 1 shows the performance of the Salomon Brothers World Bond Index and World Money Market Index since their Jan. 1, 1978, inception. On a cumulative basis, the World Bond Index is up only 0.5 percent in U.S. dollar terms in 45 months, equivalent to a compound annual return of about 0.1 percent per year. Even the best performing international sector — Euroyen bonds — generated a compound return of only 3.7 percent per year in U.S. dollar terms. With 20-20 hindsight, the maxim of the past four years in all currency sectors should have been: "Keep your money short."

Money market instruments in all eight currencies substantially outperformed bonds. The Salomon Brothers World Money Market Index (Chart 1) provided a compound annual return of 10.0 percent in U.S. dollar terms. For the period since January 1, 1978, U.S. dollar-denominated instruments turned in the highest money market returns, as they benefited from high average levels of interest rates, and from the strength of the U.S. dollar versus other major currencies.

Three-month Eurodollar deposits generated a 13.1 percent annual return. Eurodollar floating rate notes, which pay a spread (generally ¼ percent) above London interbank offered rate (Libor), provided the best returns of any short or long-term instrument denominated in the principal eight currencies in the period since January 1, 1978. Floaters earned a compound annual return of 14.2 percent per year.

Although cumulative returns of the major international sectors were uniformly abysmal for the 45-month period under review, there were numerous bright spots over shorter time horizons. In 1978, total returns of the Japanese and continental European markets ranged from about 20 percent to 30 percent, measured in dollar terms. Similarly, sterling denominated bonds did well in 1979-1980, and yen bonds turned in a sparkling performance in 1980, at a time when the dollar and Deutsche mark markets provided low or negative returns.





Wide year-to-year variations in performance appear to be a deeply engrained characteristic of the international fixed income markets, especially in the volatile interest rate and currency environment of recent years (see table). One implication of these substantial short-term variations is that active portfolio managers could, in theory, materially enhance returns via strategic portfolio shifts from sector to sector. In practice, accurately timed adjustments in portfolio weightings are difficult to achieve, but at the very least, diversification across a number of markets should provide some protection against the sharp swings of any individual sector.

The principal determinant of relative market performance over short horizons is the currency factor. This point is illustrated by the table, which gives the portion of total return generated by currency movements for each calendar year beginning 1978. It is evident from the table that strong total return performance is almost invariably associated with sharp currency gains, and vice-versa.

Currency fluctuations are the principal cause of year-to-year variations of performance in dollar terms for the different sectors. A prime example is the Euroyen market: Returns seesawed from +30.3 percent in 1978, to -24.0 percent in 1979 on the back of the yen's weakness in foreign exchange markets, then rebounded to +23.3 percent in 1980 as the yen surged 17.8 percent against the dollar. The cumulative currency impact from the point of view of a dollar-based investor is shown in Chart 2, which plots the World Bond Index in both local currency and U.S. dollar terms. The area between the two lines represents currency gain or loss.

International bond market performance so far in 1981 has been a duplication of the pattern discussed above. From January to September, all international bond sectors show negative cumulative returns — again with the notable exception of Eurodollar floating rate notes. The British sterling sector, and to a lesser extent, the continental markets were especially hard hit by the declines of their respective currencies against the dollar. Over a shorter time horizon, however, many non-dollar sectors have performed well during the past few months, as these currencies rallied in foreign exchange markets. For example, the Euro-DM and foreign Swiss franc markets generated total dollar returns of 7 percent to 8 percent for the month of September.

Jeffrey Hanna is a vice president and director of International Bond Research of Salomon Brothers Inc.

Total Return Performance of International Bond and Eurodeposit Markets

(Percentages, in U.S. Dollar Terms)

	1978		1979		1980		1 Jan.-30 Sept. '81	
	Total $ Return	Currency Return Portion	Total $ Return	Currency Return Portion	Total $ Return	Currency Return Portion	Total $ Return	Currency Return Portion
U.S. DOLLAR								
Foreign $ Bond	3.0	–	—2.3	–	—1.3	–	—8.5	–
Eurodollar Bonds	2.9	–	0.5	–	4.6	–	—3.5	–
Eurodollar FRNs	10.5	–	13.0	–	13.7	–	16.1	–
Eurodeposits	8.6	–	12.2	–	14.7	–	13.5	–
CANADIAN DOLLAR								
Euro C$ Bonds	—4.6	—7.6	2.5	1.1	4.2	—1.9	—1.6	—1.1
Eurodeposits	0.4	—7.6	13.3	1.1	11.5	—1.9	12.5	—1.1
DEUTSCHE MARK								
Euro-DM Bonds	22.1	15.0	4.9	5.6	—11.6	—12.2	—15.4	—15.6
Eurodeposits	18.9	15.0	11.8	5.6	—3.9	—12.2	—8.0	—15.6
YEN								
Samurai Bonds	31.2	22.9	—23.0	—18.8	26.4	17.8	—11.6	—12.6
Euroyen Bonds	30.3	22.9	—24.0	—18.8	23.3	17.8	—6.1	—12.6
Eurodeposits	29.6	22.9	14.0	—18.8	31.6	17.8	—6.0	—12.6
U.K. STERLING								
Eurosterling Bonds	3.3	6.1	17.7	8.9	16.3	7.7	—24.0	—24.7
Eurodeposits	16.7	6.1	24.3	8.9	27.1	7.7	—16.9	—24.7
SWISS FRANC								
Foreign Sfr. Bonds	29.0	22.2	—1.1	1.8	—9.1	—10.4	—15.4	—10.0
Eurodeposits	23.5	22.2	3.1	1.8	—5.1	—10.4	—4.3	—10.0
DUTCH GUILDER								
Foreign Dfl. Bonds	21.9	14.8	7.5	3.9	—5.8	—10.8	—15.9	—17.7
Euro Dfl. Bonds	22.2	14.8	7.2	3.9	—4.3	—10.8	—18.8	—17.7
Eurodeposits	21.7	14.8	13.3	3.9	—0.5	—10.8	—10.7	—17.7
FRENCH FRANC								
Euro Ffr. Bonds	31.2	12.1	1.3	3.8	—6.7	—11.4	—19.8	—18.5
Eurodeposits	24.5	12.1	15.3	3.8	0.8	—11.4	—8.5	—18.5

Luxembourg Bank Magic: Diversification

By Brent Bowers

LUXEMBOURG — The word that spells magic in Luxembourg banking circles these days is diversification. Banks increasingly are turning to activities such as money funds, gold trading, portfolio management, certificates of deposit and gold and silver certificates to help them ride out a profit crunch.

For the banking boom that made tiny Luxembourg one of Europe's three great financial centers has given way to a pause. High interest rates, as everywhere else, are biting into profit margins and cutting into the value of bond holdings.

Of course the advantages that persuaded the big banks of West Germany, Scandinavia, Switzerland and the United States to set up operations in Luxembourg have not lost any of their luster. Officials still make the same proud claim that no other country is so free of governmental meddling.

Moreover, they point out, the sheer volume of business is growing faster than ever. The balance-sheet total of the 113 banks established in the Grand Duchy has risen to 5 trillion Luxembourg francs from 3.9 trillion for 111 banks a year ago, although much of the reason is the revaluation of the dollar.

By contrast, a decade ago it was a meager 343 billion and two decades ago an almost unnoticeable 3 billion. Still, with the outlook grim for 1982 and perhaps the years beyond, it's been necessary for the banking community to explore new realms of activity.

"Profits have gone down steadily since the high point of 1978," Ernest Muhlen, secretary of state for finance, said in an interview.

"The trend is uncertain," he said. "We certainly don't expect a dramatic recovery, since the margins remain very narrow and the outlook on interest rates, and thus for bonds, remains discouraging."

Consequently, he said, "banks have been led to diversify their activities into such areas as investment banking and insurance."

Another banking specialist confirmed the profits slump, although he said the picture varies widely from bank to bank. "It's a very competitive market now," he said. "The days of pioneer profits are gone."

Perhaps the initiative that drew the most international attention this year was the establishment of a Luxembourg gold market by the Banque Internationale, Kredietbank, the Compagnie Luxembourgeoise (owned by Dresdner Bank), the Banque Nationale de Paris and the Caisse d'Epargne de l'Etat (State Savings Bank). In March, the Luxembourg stock exchange began holding daily gold fixings.

Francois May, assistant management counselor to the State Savings Bank, claimed that the introduction of the market showed that the authorities are eager to "consolidate what has been acquired." Gold enriches "still further the attractive image presented by Luxembourg to the financial and economic world," he said.

Money Funds

He did not have to add that the success of the market has been enhanced by the lifting of taxes on gold transactions and the subsequent imposition of such levies in Belgium, to the consternation of the Brussels bourse, as well as by new restrictions on trading in the precious metal in Paris.

Mr. Muhlen said he could not divulge details of the operations, but he said that the "volume is developing favorably."

The other big innovation this year was the establishment of American-style money market funds by the U.S. brokerage firm Shearson Loeb Rhoades.

A specialist at the Banque Internationale a Luxembourg, which helps administer the fund, claimed its was the first fund of its kind in Europe, although Paribas Belgique has begun a similar program.

He said the Luxembourg fund invests in dollar-denominated instruments only, thus avoiding exchange risks, and sells shares outside the United States, largely to individuals and companies with extra cash on their hands. "There is an extremely big interest among the banks in Luxembourg in this," he said.

He refused to divulge the volume of business that has been generated so far. Sales have been picking up dramatically in the past few weeks, he claimed, but he added that that "marketing hasn't been undertaken on a great scale yet."

This is partly because many countries have withheld authorization. The banker added that the top target regions for the fund are the Middle East and the Far East, and eventually Latin America.

The fund, he said, would boost Luxembourg's importance as a financial center. "It's always good to have an extra product to sell, a product that is competitive. We have an international clientele. If we didn't do it, somebody else would," he said.

His bank, along with Dresdner, is entering the field of gold certificates, he said, while Deutsche Bank is thinking about launching silver certificates.

Another financial source said certificates of deposit are gaining popularity, although they are "keeping a low profile" and West German banks are shying away from them.

Low Returns

"There's a continual search for new ideas and innovations in Luxembourg" to offset the low returns of traditional Euromarket banking, he said.

Banks are also showing greater interest in portfolio management. Private accounts are on the increase at many institutions, which in turn are lowering their minimum deposit requirements, a banking source said.

Although Luxembourg trails far behind London and Zurich in this activity, some wealthy customers are said to be happy to be able to spread out their holdings more widely. Luxembourg's costs are generally lower, and its banking traditions make unlikely the imposition of capital controls like those that have been tried in Switzerland.

The new emphasis on diversification should not obscure the overwhelming importance of Eurocurrency transactions in Luxembourg, which has increased its share in all Eurodeposits received by banks to nearly 12 percent and its share of Eurocredits to the non-banking sector to 25 percent.

In 1980, over 21 percent in volume of all Eurobond issues were managed or comanaged by Luxembourg banks.

Tax Agreements

The reasons for the growth are numerous, but at the top of the list is freedom from government controls. The West German banks moved in originally to escape reserve requirements back home. Scandinavian banks came to avoid restrictions on forward trading, and so on.

Luxembourg has negotiated or intends to negotiate double taxation agreements with Italy, Denmark, Spain, Portugal, Morocco, and "a lot of other countries," Mr. Muhlen said.

The duchy also permits all kinds of banking operations, has strengthened its already tight secrecy laws, and shows "flexibility" in applying legal regulations.

Mr. Muhlen said the banks are undergoing a "consolidation" phase that "could last into 1982 and beyond."

Brent Bowers is a financial writer based in Brussels.

Dollar's Dominance Raises Questions Over Currency Rates in 1982

EUROMARKETS

By Richard Rae

LONDON — The overwhelming dominance of the U.S. dollar this year raises questions about the prospects for world currencies and interest rates in 1982.

After a decade of neglect, the dollar once again became the darling of the international investment community, pushing aside the old favorites, the Swiss franc and the Deutsche mark. At one stage, sterling — classed briefly as a petrocurrency — also rivaled the dollar. But it lost strength when the world found itself with an oversupply of oil.

The dollar's dominant position is underlined by its exchange-rate improvement against the Deutsche mark of 17 percent, the Swiss franc of 6 percent and sterling of 24 perceot to date. The interest-rate advantage bolstered the dollar throughout the year.

To determine whether the dollar will continue to find favor among investors, or whether one of its European counterparts will make a comeback, a closer look at the respective countries' economies and their projected performance over the coming year is helpful. A comparison of monetary policies, trading and current accounts, budgetary strategies and political stability presents the following picture.

The Reagan Approach

The Reagan administration's efforts to cool down the U.S. economy appear to have produced some of the desired results. Through tight fiscal policies, the Federal Reserve Board has throttled coosumer spending and reduced economic activity — but to such a degree that the true free-trading principles advocated by the Reaganites seem unworkable in this climate of severe credit cootrols and mushrooming current-account deficits.

The limited success the fiscal controls have had — reducing the inflatioo rate to 10.9 percent at the end of Angust from the preceding year's 13.5 percent — is aggravated by a trading account deficit that is expected to grow from $28.75 billion at the eod of September to $40 billion at the end of this year.

In addition to the growing current and trading account deficits, the budget shortfall presents a major headache for a U.S. government elected partly on the promise of lower personal taxation and free trade.

With this year's federal deficit projected as high as $100 billion, wildly overshooting the government forecast of $43 billion; and next year's officially projected shortfall of $40 billion contrasting sharply with independent estimates that are far higher, the prospects for a sustained period of lower interest rates are gloomy.

Reliance on Borrowing

The burden of paying unemployment benefits to 8 percent or more of the labor force, of lower tax revenues due to the receding economy, and of a substantial increase in military spending by President Reagan has forced the Treasury to rely on borrowing its way out of the ever-increasing deficit, rather than raising taxes, which would run contrary to the administration's embattled "supply-side" approach to economics.

In addition, the high level at which the inflation rate has leveled off forms an unsuitable base from which to refuel economic activities in the coming few years.

With this in mind, the dollar looks unlikely to weaken significantly in the coming year, because high interest levels are expected to continue. The positive return on dollar investments over the rate of inflation this year underpinned the currency. This contrasted sharply to the negative real returns over the last 10 years, a period accentuated by the declining value of the U.S. currency.

Dollar Still Attractive

For investors who at the beginning of this year chose to trade in their pounds sterling, Deutsche marks or Swiss francs for dollars, 1981 was rewarding. And the return of fixed-interest investments denominated in any of these currencies favored dollar securities, which at the beginning of the year gave excess returns of 4 percent over the Deutsche mark, 8 percent over the Swiss franc and matched those on pounds sterling.

The income advantage has diminished but still makes dollar deposits or bonds a more attractive investment. As the prospects are less appealing for the coming year, some diversification out of dollar investments is advisable. Sterling, as an alternative, looks unsuitable, as interest-bearing securities in this currency have become dependent on developments in the United States.

The dollar's strength of the past two years mirrored the current-account surplus from early 1979 to the first half of 1981. However, with the current account due to return to red figures in the second half of this year and expected to deteriorate in 1982, the omens for the dollar in the coming year look unsettled at best.

The problems facing the U.S. administration have been experienced in Britain during the past two years but were further compounded this year by the influence of high U.S. interest rates. With the benefits of North Sea petroleum production evaporating dne to the oil glut, sterling once again fell under the influence of dollar interest rates, despite the success of the Thatcher administration in reducing inflation from 18 percent last year to 11.4 percent at present.

With British interest rates on a steady decline during the past two years, the reversal came as a rude awakening to domestic industry, which had benefited from the decline in U.K. interest rates and even begun to prosper from sterling's strength. The erosion of sterling's inflated position in the international currency markets mirrored the rise in interest rates of other major currencies, ultimately forcing British interest rates up in defense of the currency.

Trade Surplus

The domestie economie picture reveals the dramatic impact Prime Minister Margaret Thatcher's hard-line monetarist policies have had on business activity and employment. The trading account, which last year moved into the black, continued to improve this year at a record pace. A surplus of £4 billion is expected by the end of 1981.

The improvement contrasts with that of other industrialized countries which last year grappled with record trading deficits due to the sharp rise in oil prices. The outlook in this respect remains positive for Britain, again due to domestic oil productioo and artificial dampening of consumer demand through high unemployment.

As in the United States, the benefits of tight money have been reflected in a lowering of the Minimum Lending Rate, before its abolition in August this year, from 17 to 12 percent, a reduction of the inflation rate to 11.4 percent and continuing cutbacks in government spending.

But, as in the United States, the government deficit is proving to be a Gordian knot. The burden of providing support for more than 3 million people without jobs is unlikely to diminish. Coupled with the increase in military spending — another parallel to the United States — it appears likely to force British taxes up in contradiction to the government's original economie strategy.

Borrowing Requirements

With public sector borrowing requirements expected to total £13.3 billion, overshooting the official forecast of £11 billion, the budget deficit is unlikely to improve in the coming year, despite an official forecast of a £10.5-billion deficit. High interest rates will once again be used to maintain sterling's position in the world currency markets even if domestic needs require the opposite.

Sterling should remain steady against the dollar in a range of $1.80-$2.00. Sterling interest levels should move in line with those across the Atlantic, assuming that the Thatcher government does not follow France's example of creating a two-tier interest system for domestic and international capital requirements.

In view of the matching yields that fixed-interest investments offer sterling-based investors, only the dollar's currency appeal is retained. Following this year's dollar appreciation of 24 percent, the Deutsche mark's gain of 10 percent and the Swiss franc's 18-percent rise against the British currency, diversification out of sterling would seem unlikely to be of great interest to U.K. investors in the coming year.

Further Slippage

According to Phillip's and Drew's World Investment Review, the Swiss currency will be at 3.28 against sterling by the end of 1982 compared with the current 3.43.

The prospects for the dollar and the Deutsche mark, currently at $1.82 and 4.17 DM, are also viewed as less bright.

Developments in the German fixed-interest markets also reflect the influence of the dollar. Despite the strong slowdown in business, the Bundesbank has maintained a tight money policy aimed at reducing inflation and supporting the mark in foreign-exchange markets.

Though inflation rose from 5.5 percent last year to the current 6.6 percent, the central bank's policies appear to be bearing fruit. Nevertheless, the rising cost of unemployment payments to 1.3 million people and of diminishing tax receipts continne to unbalance the federal budget: The deficit was projected initially at 26.5 billion DM, but now it is expected to reach 35 billion DM.

The business outlook for 1982 appears favorable. German industry has adjusted to rises in raw material costs and is again ready to return the trading balance to a healthy surplus this year. The current account, on the other hand, appears unlikely to show any significant improvement, with this year's official forecast of 30 billion DM showing little change on last year's 29.8 billion DM.

Improving Exports

For 1982, the improving export performance of German industry and the leveling off in raw material prices is expected to help the current account. With the federal government's funding requirements reduced by some severe spending cuts but counterbalanced by the unwavering monetarist policies of the Bundesbank, an easing in German interest rates will again be totally dependent on events in the international capital markets, particularly in the United States.

For DM-based investors, the 1982 exchange rate outlook favors investments in the local currency. Phillip's & Drew's end-of-year projections for 1982 show 2 DM against the dollar (from the current 2.30), 4 DM against the pound (now 4.17 DM) and 0.82 DM against the Swiss franc (now 0.83 DM).

The yield advantage held by sterling and the dollar are unlikely to compensate for the expected weakening of the two currencies against the Deutsche mark. The dollar's 17-percent appreciation in 1981 makes a switchback into the mark advisable, while sterling's 10-percent depreciation this year and the currency's outlook offer little incentive for DM holders to move into the British currency.

Finally, the 3-percent yield-deficiency Swiss franc bonds offer, looks unlikely to be compensated in 1982 by the projected currency appreciation, leaving DM holders with only the domestic market to consider as a viable investment field.

Surplus Anticipated

The Swiss franc's fall from grace with international investors is, as in the Deutsche mark's case, a reflection of the rise in the country's inflation rate and the decline in real income in comparison with the dollar. Last year's current-account deficit of 905 million Swiss francs resulted from an increase in oil costs. This year, a surplus of similar size is anticipated. The outlook for the coming year is even more promising with a surplus of 2 billion Swiss francs projected.

The current inflation rate of 7.6 percent, up from 4 percent in 1980, is astronomical by Swiss standards. The sharp rise in the consumer price index reflects the additional burden of higher oil prices and the central bank's relaxation of monetary targets at the end of 1978 when export industries needed "cheap" currency support.

Latest indicators point to a peak in the inflation rate at the end of this year and a sharp decline from mid-1982 on. For Swiss-franc holders, 1982 appears likely to offer good capital appreciation opportunities in the bond markets as the inflation rate declines.

Currency diversification presents little scope for Swiss investors to benefit from the higher yield obtainable in sterling, the Deutsche mark or the dollar. The 6-percent 1981 improvement of the dollar against the Swiss franc would seem unlikely to be repeated.

Close Interdependence

The picture that emerges from the comparison of these four currencies and their respective economies is a close interdependence rotating around the dollar and Reagan economic policies.

With hard-line monetarists willing to free recessionary forces to contain inflation, not one of the four governments has been able to turn back the tide of social awareness that has swept over industrial countries since World War II. The fundamental cause of inflation — excessive government spending funded through increasingly more costly long-term borrowings — remains and has not been controlled.

With the governments in the United States and Britain pursuing virtually identical economic strategies, the choice of selecting one becomes simple. The dollar, the stronger of the two, will be favored as long as it has the backing of high interest rates. Sterling can only gain the edge if its petrocurrency appeal is restored through changes relating to world oil supplies and the Middle East.

The dependence of the German economy on events in the United States is unlikely to permit the German currency to show substantial gains over the dollar. The true income gap between the two currencies, currently around 2 percent, continues to favor the dollar but only for holders of the U.S. currency; the exchange rate outlook is likely to erode this advantage.

Finally, the Swiss franc is showing signs of regaining the "hard" currency status it has always held in times of crisis. Added to the country's determination to wipe out inflation in 1982, the Swiss franc appears to be the most appealing of the four currencies. With political stability at home and monetaristic policies that seem to be working without costly rises in unemployment, the Swiss franc appears to be ready to take over the dominant position the dollar held this year.

Richard Rae is a financial journalist who is based in London.

IMF Meeting Casts Doubts on SDR Future

By Vanya Walker-Leigh

WASHINGTON — Mixed signals on the short- and long-term future of the SDR (Special Drawing Right) emerging from the International Monetary Fund's annual meeting cast doubts on where, if anywhere, this currency cocktail is headed, at least in financial dealings between nations.

Created in 1970 to serve as additional reserves held by IMF members with the fund, the SDR was slated to become a central feature of the international monetary system under an agreement adopted in 1978, and is the IMF's own unit of account.

So far, 21.4 billion SDRs have been distributed to members, in proportion to their fund quotas — 4 billion being allocated yearly for the last three years under the "third basic period." Ten institutions have been authorized to become "other holders" — the Andean Reserve Fund, the Arab Monetary Fund, the Bank for International Settlements, the East Caribbean Currency Authority, the World Bank and its affiliate the International Development Association, the International Fund for Agriculture Development, the Nordic Investment Bank and the Swiss National Bank. These holders, like fund members, can buy and sell SDRs spot and forward, borrow, loan or pledge SDRs, swap them or make grants. Unlike IMF members, however, they cannot receive allocations or use SDRs in transactions "with designation" (i.e. where one IMF member, designated by the fund, provides its currency in exchange for SDRs up to three times its cumulative SDR allocation).

Between 1970 and 1980, members made 33 billion SDRs worth of such transfers, also using SDRs in a series of other arrangements agreed with members, and in payment of one-quarter of the quota increase decided under the Seventh General Review of Quotas in 1980.

Talks Break Down

But negotiations to set up an SDR substitution account at the fund for members' surplus dollar holdings broke down in 1980, in the face of U.S. opposition, as well as doubts of a number of Western nations.

This autumn, finance ministers were unable to agree to another allocation of SDRs for 1982. Demands by Third World ministers for a 12-billion-SDR handout were met by the flat refusal of the United States, Britain and West Germany as being unnecessary and inflationary, though a number of other Western countries, such as the Netherlands, Ireland, Italy, Scandinavian countries and Canada, thought there was a case for continuing the 4-billion-SDR a year allocation in force since 1978.

France's finance minister went further, urging that developing countries be given 75 percent of any further SDR distribution (instead of the 35 percent they get now, reflecting their share of total fund quotas).

A compromise decision of the fund's Interim Committee passed the problem back to the fund's Executive Board, but U.S. Treasury Secretary Donald Regan made clear that he would use the U.S. blocking vote at the fund to veto any 1982 allocation.

Third World nations' representatives angrily pointed out that between 1972 and 1981 SDRs had fallen from 7.2 percent to 3.6 percent of IMF members' total reserves, while the Eurodollar mass had ballooned from $150 billion to $1.5 trillion, with major trading nations showing no restraint in issuing their own currencies for international payments.

The SDR's longer-term role, under study by IMF working groups, also seems in doubt.

The Reagan administration, even more than its predecessor, does not seem to favor any move that might downgrade the dollar's preeminent international role. Beryl Sprinkel, undersecretary of the Treasury, points out that "SDRs were invented to finance a volume of world trade when the fixed exchange rate system involved reserve losses to countries with balance of payment deficits. Now such countries can either devalue, or borrow on the Euromarket, making SDRs less relevant."

Britain's chancellor of the Exchequer, Sir Geoffrey Howe, urged that central monetary institutions consider assuming a developing obligation both to hold SDRs or SDR-denominated assets, and to avoid destabilizing movements between component currencies, the IMF should also study the increase use of SDRs in private and official financial transactions. Several other Western finance ministers at the IMF meeting also wanted an enhanced role for SDRs, without going into details.

Developing countries, including OPEC nations, restated long-held demands for making the SDR the centerpiece of a reformed monetary system, also to function as a new type of aid — the so-called link proposal rejected by industrialized nations in dozens of international conferences.

These countries, in particular Arab OPEC nations, are also expected to push for a complete reorganization in their favor of the IMF quota system (roughly based on members' GNP), voting rights and lending practices, including SDR allocations, in negotiations for the Eighth Review of Quotas, supposed to be completed at the end of 1983.

The extent of support of Arab oil producers for the SDR is doubtful. Only Iran, which is a Moslem but not an Arab country, and 13 non-oil-producing, low-income developing nations have pegged their currencies to the SDR so far, and only one Arab institution, the Arab Monetary Fund, is an SDR holder.

Vanya Walker-Leigh, an independent economic journalist, represents Canada's Financial Post and Lloyd's List in France.

Yield Curve Linked To Exploiting Rates

By Charles R. Geisst

LONDON — In money and bond markets, the term structure of interest rates is more commonly referred to as the yield curve. Although both obviously refer to the same ever-changing phenomenon, the latter usage is a practical, succinct example of how professional market operatives attempt to exploit interest rate structures to their own best end.

What the curve is and how it is used is quite simple. If one plots out the various rates of interest on U.S. Treasury bills and bonds from six months to 30 years and connects them with a line, then one has constructed a curve. Curves also exist for other bond sectors, whether they be corporate or municipal.

The importance of this curve is its slope — the upward or downward direction interest rates take as they move out further into the future. Naturally, the rates attached to longer-dated instruments reflect the expectations of investors. The slope of the yield curve, especially as it moves into the long term, is then perhaps one of the best single indicators of the attitudes of people generally toward the future.

Historically, the U.S. yield curve has been in a positive slope, meaning that short-term rates were lower than those in the longer terms. This generalization can always be safely made regardless of the specific sector one discusses because, regardless of the actual rates of interest of a corporate vs. U.S. government bond, the slopes in the two sectors should nertheless be the same. The reason for this is simple: In the United States, as in most industrialized economies, direct government obligations are the best-rated in terms of creditworthiness and therefore command the best (i.e. lowest) rates of interest. All other bonds and money market instruments are pegged to them but at higher yield levels, to reflect increased risk.

Investor Behavior

Investor behavior has also certainly changed over the last several years. With higher yields on deposits and money market instruments, investors have been reluctant to commit money to a 15-, 20- or 30-year investment when they can receive a higher rate, albeit for a short period, and simply roll over short-dated instruments. Thus, the borrower has been faced with both higher, inflated rates over the last several years plus a wary, inflation-wise investor.

Despite what appears to be a structural shift in the yield curve, traditional yield curve analysis remains valid. Although a 15-year bond may currently yield less than a three-year note, a BBB rated bond in the 15-year range will still yield more than an AAA 15-year issue. Following this practically, a trader who sees the BBB yielding less will sell it short and cover it probably when its yield has fallen back into line with similarly rated bonds. This quality yield curve gap can be seen in Table I.

Analysis of this sort can be very difficult in the Eurodollar bond market although it should nevertheless be quite simple. From a statistical point of view, it is impossible to compose averages of bond yields of short-, medium- and intermediate-term corporates in the Eurodollar sector because bonds of all types of rating and maturity length do not yet exist.

This is due to the fact that the Eurobond market is normally used as an alternative to domestic markets by many corporate borrowers. Thus, this type of borrower appears only when Eurodollar rates are to its advantage. And since there appears to be no direct correlation between the behavior of U.S. domestic rates and the London interbank offered rate (Libor), except on a seasonal basis, "windows" in the Eurodollar bond market normally tend to open and close in staccato fashion, depending upon somewhat random movements in interbank dollars.

Oddly enough, the one sector that does possess sufficient issues to test basic bond market thinking in the Eurodollar sector is currently out of favor. Supranational issues many times trade at yield premiums above their AAA rated status. This has been caused by what the market perceives as market saturation, or a surfeit of dollar issues by these borrowers.

Tax-Free Market

Since the Eurodollar bond market is essentially a tax-free market (lack of withholding taxes leveled at coupon payments), it is not immediately comparable to the U.S. domestic corporate bond market with which it otherwise has so much in common.

For example, assume that a domestic U.S. company has borrowed at similar rates, for similar terms to maturity, in both the Eurodollar and domestic bond markets. Traditional thinking has held that the Eurobond should pay an ostensibly higher rate of interest because of its expatriate nature, and in many cases this is still true. However, in some instances, the Eurobond actually yields less due to the fact that it was brought to market at a lower rate than could have been accomplished in the United States, and has continued to trade in a similar fashion.

The matter of withholding tax on domestic U.S. corporate interest payments for non-exempt foreign nationals (excluding Yankee bonds) means that the markets are not "arbitrageable" in a universal sense and that the U.S. corporate sector is not the pricing mechanism for new Eurodollar issues. Instead, the U.S. Treasury market has taken up this burden. This has led to some curious market anomalies that have benefited the borrower more than the lender.

The Eurodollar market therefore cannot always serve as its own sole pricing mechanism. The U.S. Treasury market assumes this function many times almost by default. And the same statistical problem mentioned above is also evident in the process of pricing a new Euro-issue.

It should not be assumed that no yield curve exists in the Euromarket. The best-known curves are those based on sovereign issues or those of government guaranteed entities. Under ideal conditions, this type of curve becomes the benchmark pricing mechanism to which new issues are compared. However, due to the lack of suitable AAA credits, roughly comparable to U.S. Treasuries, in all maturities even this curve has not maintained any consistency in the way it has traded over Treasury obligations. This can be seen in Figure I.

This lack of spread consistency has left the pricing of new Euro-issues to a combination of subjective factors. New bonds are priced with a combination of the comparable Treasury yields plus existing secondary market yields in mind. But other factors still enter the picture.

Additionally, some corporate borrowers have been able to come to market at yields lower than those suggested by basic pricing mechanisms due to scarcity value or the fact that their names are popular because of European stock exchange listings. This does not imply that yield is not an important consideration but underscores the fact that the relative thinness in parts of the market allows some latitude in the primary sector of the offshore market.

The slope of the yield curve, especially as it moves into the long term, is then perhaps one of the best single indicators of the attitudes of people generally toward the future.

In the secondary market, yield gap arbitrage is much more an intuitive matter than it is in the longer, more liquid markets. And many Eurodollar issues are brought to market through underwriting procedures unknown in U.S. domestic markets, namely the fully underwritten issue, or bought deal. If these sort of issues are initially well-placed, then secondary activity can be minimal and yields on these bonds can be elliptical at best.

These problems in the Eurobond market have not impeded its development over the last 17 years since the original Autostrade issue appeared. In 1964, total new issues amounted to less than $75 million. Today, the market has grown to an estimated $70 billion outstanding on public straight dollar issues alone, net of redemptions. As time progresses, the market should develop to the point where sufficient liquidity exists in all compartments so that current statistical and structural problems become relics of the past.

Charles R. Geisst is an associate director of Bank of America International Ltd. and author of "A Guide to the Financial Markets," to be published by Macmillan in January.

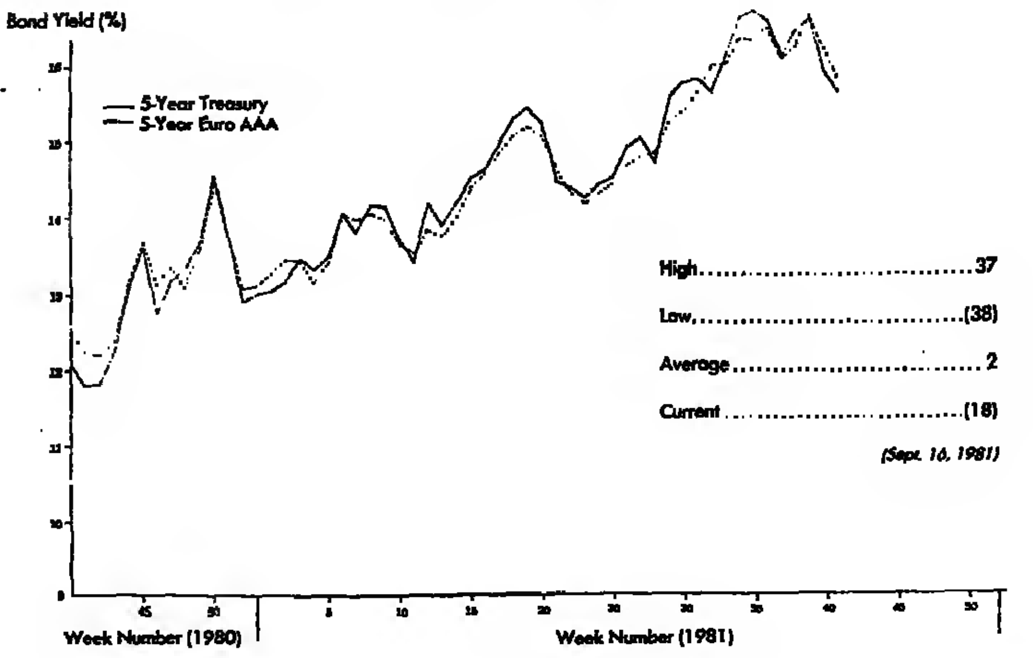
U.S. Domestic Corporate Bond Yield Differentials

(End of Month)

	AAA	AA	A	AAA spread vs AA/A
1977				
March	8.10	8.28	8.55	(.18) (.45)
June	7.95	8.19	8.46	(.24) (.51)
September	7.92	8.15	8.37	(.23) (.45)
December	8.19	8.40	8.57	
1978				
March	8.47	8.66	8.83	(.19) (.36)
June	8.76	8.95	9.18	(.19) (.42)
September	8.69	8.92	9.11	(.23) (.42)
December	9.16	9.33	9.53	(.17) (.37)
1979				
March	9.37	9.61	9.81	(.24) (.44)
June	9.29	9.66	9.89	(.37) (.60)
September	9.44	9.70	10.03	(.26) (.59)
December	10.74	11.15	11.46	(.41) (.72)
1980				
March	12.96	13.51	13.97	(.55) (1.01)
June	10.58	11.39	11.89	(.81) (1.31)
September	12.02	12.52	12.97	(.50) (.95)
December	13.21	13.78	14.03	(.57) (.82)
1981				
March	13.33	13.90	14.47	(.57) (1.14)
June	13.75	14.41	15.08	(.66) (1.33)

Source: Moody's Bond Record.

U.S. Dollar Bonds



Greater Stability for the Swedish Krona

WASHINGTON — Pegging the Swedish krona to a basket of 15 currencies has meant greater exchange stability for Sweden, according to Lars Wohlin, governor of the Sveriges Riksbank.

The Swedish krona's basket is weighted according to the role of leading nations in Sweden's trade, with the Deutsche mark, dollar, yen, French and Belgian franc accounting for well over half the weights. The basket is revised each April.

Iceland, Norway, Finland also have adopted the basket system, but with different currency mixes and revision rules. Denmark, as a member of the European Economic Community, belongs to the European Monetary System. Sweden, like Norway, used to belong to the so-called EEC snake, Mr. Wohlin pointed out, and both studied the possibility of joining the EMS before deciding not to.

"The different approaches of Scandinavian countries to exchange and other economic policies means we cannot contemplate monetary integration or coordinated exchange rate movements," he said. "However, officials of our nations meet regularly. We would like to integrate our capital markets, harmonize tax laws. While direct investments are not restricted, there are still a lot of obstacles to portfolio investments by foreigners, including Scandinavians, in our countries. But the problem is that under OECD rules we are supposed to relax restrictions on an absolutely equal basis toward all OECD members."

'While direct investments are not restricted, there are still obstacles to portfolio investments by foreigners.'

Foreign Bank Units

Sweden is contemplating allowing foreign banks to set up branches with a full range of banking operations in the country. "I am personally in favor," Mr. Wohlin said.

Denmark and Finland accept foreign banks; Norway does not.

Despite the basket system, Sweden had to devalue its krona by 10 percent in September. Following a run on the krona in January, 1981 (countered by increased interest rates), wage settlements involving a considerable increase in labor costs, the krona has hit by the rising dollar. Under the basket system, the krona's fall against the dollar had to be matched by an appreciation against the West German mark, undermining Swedish exporters in their main market. As the world's leading per capita oil importer, Sweden is also very vulnerable to oil price increases, all the more so because they are expressed in dollars.

As a result of the devaluation, Mr. Wohlin sees Sweden's current account deficit (22 billion kronor in 1980) probably reduced to 15 billion in 1981, and possibly to less than that next year. The deficit will be mainly met by private sector borrowing on international capital markets, he pointed out.

Swedish growth prospects for 1981 and 1982 are "rather modest," Mr. Wohlin concluded.

—VANYA WALKER-LEIGH

How Budget Deficits Affect World Markets

(Continued from Page 7S)

tween the budget deficit and savings that is critical in determining whether the deficit can be financed comfortably without either a rise in interest rates or recourse to external borrowing.

Table 2 shows gross domestic savings in each of the six countries covered by Table 1. The gross domestic savings series are as defined by the Organization for Economic Cooperation and Development. The table presents the OECD figures for the gross savings of the non-financial domestic sectors for each country in 1980. Out of these savings, private capital investment has to be financed as well as the government deficit. It also shows Phillips & Drew forecasts of gross savings, as defined, for 1981 and 1982.

In Table 3, budget deficits are expressed in terms of the gross savings figures in Table 2.

The figures in Table 3 show the budget deficit taking a smaller proportion of savings in Japan, Britain and West Germany in 1982 but, in the United States, the corresponding proportion is on a rising trend. In France, the expansive fiscal policy of the new administration is set to generate an explosive rise in the budget deficit relative to the French domestic savings flow.

The implications of these figures for financial markets are complex. In some of the major countries — for example, West Germany and Britain — there could well be scope for an easing in the upward pressures on interest rates generated by the government sector. On the other hand, the sustained high level of U.S. government borrowing is likely to underpin dollar interest rates if, as seems likely, the Federal Reserve maintains its effort to curb growth in the U.S. monetary aggregates.

French Policy

In France, by contrast, lower domestic interest rates are an aim of government policy. However, a rise in the budget deficit on the scale that the French government is planning is only likely to be financed domestically at lower average interest rates than have prevailed this year if private French borrowers are displaced from the domestic capital market or if the government itself has recourse to extensive overseas borrowing. In either event, the financial flows generated by the increased borrowing in the international market are likely to be a depressing influence on the French franc exchange rate.

The government financing pressures in France are typical of many European countries. In both Belgium and Denmark, for example, the budget deficit in 1982 will probably be equivalent to more than 30 percent of gross savings. If deficits on this scale were to be financed solely in domestic capital markets, they would almost certainly create a serious shortage of funds to sustain capital investment in the private sectors of these economies. Although the governments of these smaller European countries are generally committed to policies aimed at containing the size of their fiscal deficits, the depth of the recession in Europe, combined with the problems of maintaining internal political consensus over appropriate fiscal measures, holds out little hope that fiscal targets will be met in the year ahead. Consequently, financing pressures in the domestic capital markets in these countries are likely to intensify.

In the face of these pressures, governments are likely to turn to the international markets. By recourse to this financing channel, they will seek to limit the tendency for domestic interest rates to rise. Direct government borrowing from this source will probably mean that there will be little or no diminution in European demands on the international capital market from 1980, when European borrowers raised about $50 billion equivalent in these markets, or 1981, when the offtake may turn out to be even higher.

The attractions to governments of international borrowing are likely to be further enhanced, given the weak current account balance of payments positions of many of the smaller European countries. The current accounts of these countries have suffered from the rise in oil prices. The downturn in demand in the major European economies, which accounts for a high proportion of the exports of the smaller countries, has held out the prospect, at best, of a very slow recovery in balance of payments current accounts.

Exchange Rate Move

One way in which the governments of the smaller European countries might have reacted to the deterioration in their current account positions would have been to allow a fall in the exchange rate of their currencies. In allowing this, they might have hoped to improve the price competitiveness of their exports and there might also have been a better prospect of attracting capital inflows at the lower exchange rate levels. Capital inflows would have financed the current account deficits and relieved the shortage of savings in domestic capital markets.

In spite of these advantages of an exchange rate depreciation policy, there were disadvantages in allowing exchange rates to fall. A large proportion of the smaller European countries' exports comprise specialized manufactured goods, where demand is not very price sensitive, or agricultural products, subject to the fixed price regime of the CAP. Furthermore, a decline in the exchange rate would have contributed further to the rise in import costs that was at the root of these countries' balance of payments problems. It is likely, therefore, that governments in these countries would have sought to stabilize exchange rates even if there had been no political commitment to do so under the terms of the European Monetary System (EMS) arrangements.

The EMS arrangements, from their inception in 1979, have required those governments that subscribe to the exchange rate mechanism (that is, all the European Economic Community member governments except Britain and Greece) to take measures to maintain the exchange rates between their currencies within prescribed bands of fluctuation around central rates.

Although there is provision for the central rates to be changed, it would have defeated the object of the system if these changes had been frequent. A zone of fixed but adjustable exchange rates within the EEC area has encouraged the governments of the European countries that are outside the EEC as, for example, the Scandinavians, to seek greater stability of exchange rates than prevailed in the mid-1970s. Since a large proportion of such countries' trade is with EMS participants, exchange rate stability was seen by these governments as conferring a clear benefit, in terms of domestic manufacturers' trading policies.

Consequently, the governments of the smaller European countries have not regarded currency devaluation as an attractive option in dealing with their financing problems. This has left recourse to international borrowing as the only alternative strategy.

There may be a substantial cost involved in following this strategy, however. If European governments encourage borrowing on the international markets in order to relieve upward pressure on domestic interest rates, the public and private sector borrowers who turn to these markets may well be faced by steeper interest costs than in domestic markets. U.S. interest rates currently stand at levels above those in European countries, except in Britain, France and Italy.

High U.S. interest rates are likely to persist as long as the Federal Reserve sticks to restrictive money growth targets, against a background of expanding U.S. government financing requirements. Unless the U.S. dollar weakens substantially on the foreign exchanges, which is unlikely while the Federal Reserve maintains a tough anti-inflation stance, borrowers are likely to find dollar credit expensive compared with the costs of domestic borrowing. There is, therefore, likely to be a strong preference on the part of borrowers to seek credits denominated in relatively low interest rate currencies such as the Deutsche mark and the yen.

Mediation

The monetary authorities in West Germany and Japan have not in the past been indifferent to the use of their currencies in mediating international capital flows. In West Germany, the banks have effectively rationed new international DM bond issues. The Japanese authorities have recently adopted a policy of liberalization but it is doubtful whether they would wish to see extensive use of their currency for international purposes.

Nevertheless, the demands of borrowers in the international markets for relatively low interest credit are likely to bring about a shift in the proportion of total international loans and bond issues away from the U.S. dollar toward the low interest rate currencies. This could well turn out to be the most striking development in the international financial markets in 1982.

If the monetary authorities in the low interest countries seek to restrict the supply of international capital denominated in their currencies, the pressure of demand from borrowers is likely to force up the interest rates on international borrowings in DM and yen to a significant premium over the corresponding domestic interest rates on these currencies.

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Table 1: Budget Deficits of Six Leading Industrial Countries

(Billions)

	1980	1981	1982	1982 as % of GDP
USA $	79	100	115	3.9
Japan Y	14,300	12,300	10,500	3.7
Germany DM	51	67	50	2.9
Canada C$	14	14	12	3.6
France FF	36	70	110	3.5
UK Pounds	13	12	11	4.2

Table 2: Gross Savings of Domestic Non-Financial Sector

(Billions)

	1980	1981	1982
USA $	592	655	725
Japan Y	212,200	239,000	240,000
Germany DM	330	350	350
Canada C$	62	62	59
France FF	556	585	615
UK Pound	43	42	44

Table 3: Budget Deficit as Percent of Gross Savings

	1980	1981	1982
USA	13	15	16
Japan	7	5	4
Germany	15	19	14
Canada	23	22	20
France	6	12	18
UK	30	29	25

In Table 3, budget deficits are expressed in terms of the gross savings figures in Table 2.

EUROMARKETS

'Reaganomics' Officially Arrives at IMF and World Bank

WASHINGTON — Reaganomics officially arrived at the International Monetary Fund and the World Bank when the president and his Treasury secretary made clear in their speeches to the annual conference in Washington that they wanted far tougher rules for financial aid to poor nations, and much more "magic of the market place" in those same nation's economic policies.

The United States subsequently abstained Nov. 10 on a controversial $5.8-billion balance-of-payments loan made by the IMF to India, saying the economic performance criteria involved were not severe enough. But there are indications that strategically vulnerable nations, such as Sudan, may count on U.S. support in negotiating for IMF loans on terms that will not precipitate political or social upheaval.

The U.S. position at the joint IMF-World Bank conference in October won some support from Britain and West Germany, though Canada, Italy, France and the Nordic and Benelux countries would have preferred easier rules.

While the wealthy nations finally agreed to endorse current IMF practices, it became apparent from public and private statements of finance ministers and international officials that not only developing nations but the World Bank group, and possibly the IMF — in an unprecedented situation — would have to turn increasingly to the private market for funds to finance development plans and balance-of-payments support.

Concern Over Conditions

Many developing nations' representatives were deeply concerned at indications from American officials that the United States would keep up the pressure, each time an IMF or World Bank loan was debated, for more market-oriented economic discipline. These countries chafe at the conditions already attached to the bulk of their borrowings from the IMF, which now can total 450 percent of their quotas over three years.

Their quotas, related roughly to the economic size of nations, are very small (many are under 50 million to 100 million Special Drawing Rights, or SDRs). But acceptance of IMF discipline to obtain balance-of-payments loans is an informal, but rigorous, requirement for obtaining extensive private bank credit, let alone rollovers of outstanding debts.

Cesar E.A. Virata, the Philippine premier and finance minister, who acts as a Third World spokesman at the IMF, complained in an interview: "Adjustment falls only on deficit countries with limited borrowing capacity. It should be symmetrical, with surplus nations forced to make adjustment efforts also."

He warned that IMF-type discipline could cause major social and political upheavals in some poor countries, and said IMF quotas should be increased from 60 billion SDRs to 240 billion SDRs — though "not in one shot," since they only represent 3 percent of the value of world trade now, compared to 12 percent in 1946. "We have no quarrel with free enterprise and market mechanisms as such," he added, "but many countries have adopted different systems."

Changing the Rules

While the Eighth Review of Quotas, supposed to be completed by the end of 1983, is unlikely to result in anything close to Mr. Virata's ideas, some of the poor nations will make a major effort not only to increase their share of quotas, votes and drawing rights, but to change the rules in their favor. They also will continue to push their demand that Special Drawing Rights be used as aid.

But refusal by the United States, West Germany, Britain and some others to extend the annual allocations of 4 billion SDRs of the last three years into 1982, does not augur well for further development of this asset at IMF.

With non-oil countries' current deficits standing at $82 billion in 1981, IMF loans, under the "enlarged access" arrangements agreed last year, totaled $10.3 billion up to August, 1981, as compared to $8.2 billion in 1980.

But the $4.6-billion "trust fund" set up to loan profits from the sale of 25 million ounces of gold held by the IMF has been fully committed. Part of the repayments will go to subsidizing interest rates on IMF loans (from the so-called Witteveen $8.8-billion Supplementary Financing Facility). The balance will be reloaned.

Remaining Gold

But there was no talk of mobilizing the IMF's remaining 100-million ounces of gold to back loans to poor countries — and an earlier suggestion by Commonwealth finance ministers that further IMF gold sales be used to subsidize interest paid by poor countries on IMF drawings was not formally discussed.

'Many developing nations' representatives were deeply concerned at indications from American officials that the U. S. would keep up the pressure . . . for more market-oriented economic discipline.'

Jacques de Larosiere, the IMF's executive director, has managed to expand IMF resources by arranging an $9.6-billion loan from the Saudi Arabian Monetary Agency, available in 1981 and 1982 in equal installments, with a further $4.8 billion possibly available in 1983.

Part of the deal was a larger IMF quota and a bigger vote for Saudi Arabia, making it the sixth most important member. But plans to raise more money from other Arab states continue to founder on the issue of observer status for the Palestine Liberation Organization.

Members of the Bank of International Settlements have chipped in another $1.5 billion, but Mr. de Larosiere sees the IMF needing an annual $8-billion borrowing — either from richer member states, or from private capital markets — to meet the acute payments problems of poor members.

He has warned repeatedly that at least half the non-oil developing countries had "unsustainable deficits," but that most countries operating under IMF programs had managed to reduce their deficits.

IMF studies indicate that the non-oil countries met about two-thirds of their 1980 deficits by short-term borrowings and rundowns of deposits; most of the rest relied on long-term aid. There are doubts how long this pattern can be maintained.

Trends also indicate that OPEC surpluses may fall sharply, and that their deposits with Western banks, the leading instrument for "recycling," are ceasing to grow.

OPEC seems to be diversifying into long-term assets in Western countries, with less than 10 percent of its surpluses directly invested in developing nations.

Changes at World Bank

Caught between U.S. resistance to multilateral lending and the huge needs of the non-oil developing nations, Alden W. Clausen will be trying to steer the World Bank in new directions that may not please many of its aid recipients.

Mr. Clausen, a former chairman of the Bank of America, said in his first speech as the new World Bank chief that he saw energy, rural development and sub-Saharan Africa as the three key areas for World Bank action. The bank's recent report on that African region attracted strong criticism from African ministers, who said it appeared to link aid commitments from the World Bank to the introduction of more free-enterprise and market-oriented economic policies.

Mr. Clausen confirmed that the bank would boost its borrowing on the capital market — aiming to raise $8 billion this year — but he backed away from suggestions that World Bank resources could be increased by changing its very conservative 1-to-1 "gearing ratio."

Mr. Clausen also urged more joint financing of projects by the World Bank and private banks. But the World Bank's own statistics show that such activities dropped in 1980, and many bankers and finance ministers see limited scope for such arrangements.

IDA's Problems

The International Development Association, the World Bank's soft-loan affiliate, might also have to go into the market in 1983, Mr. Clausen said.

IDA had to suspend loans in April when the United States failed to pay in its part of the $12-billion "sixth replenishment" for 1981-83. Though the U.S. government has now agreed to stretch payments over four years, final Congressional approval for 1983 and 1984 is far from certain, and the government does not wish to commit itself to negotiating a seventh replenishment. Other donors have agreed to reactivate IDA, but have threatened to match any future U.S. cutbacks.

Bilateral aid flows are expected to continue to stagnate as part of budget cutbacks and general "aid fatigue" in many countries, while non-oil countries' external debt, already topping $350 billion, seems likely to keep on growing — as long as banks will lend.

There seems to be no immediate prospect for a "brave new financial deal" to spur development, as proposed by the Brandt Commission, and developing countries' financial problems can only get worse.

— VANYA WALKER-LEIGH

Belgian Banks Fear Rise in Foreign Debt May Hurt Nation's Credit Rating

BRUSSELS — Belgian banks, reeling from high interest rates and the recession, are determinedly putting their houses in order. Their most fervent wish is that the state would do the same.

Their main complaint is that the public sector's uncontrolled appetite for funds has more or less exhausted the domestic market. They fear that the rapid increase in foreign borrowing combined with deteriorating economic conditions at home might jeopardize the country's international credit standing.

The banking community is hoping that a strong government will have emerged from the Nov. 8 elections, willing to initiate long-overdue, if unpopular, reforms — notably an overhaul of the indexation system linking wages to inflation.

Although each of the big three — Societe Generale de Banque, Banque Bruxelles Lambert and Kredietbank — appears confident its special strengths will carry it through to better times, none underestimates the difficulties that lie ahead.

"We worry a lot about the international credit of Belgium," said Hubert Simonart, Societe Generale secretary. "We ourselves are better managed than the state — but fear we will become a sort of victim of state ineptitude."

'Serious Threat'

Ivan Lenotte, a director at Bruxelles Lambert, echoed this concern. Noting that Belgium's foreign indebtedness bad climbed to 400 billion francs from zero in just three years, he said there are limits to how much it can continue to borrow. "International credibility is under serious threat if nothing changes," he warned. "The market is waiting to see what the new government will do."

The outgoing government of Premier Mark Eyskens is not blind to the problem — far from it. The blunt-spoken finance minister, Robert Vandeputte, called the country's financial situation catastrophic. He said International Monetary Fund (IMF) authorities in Washington recently asked him, "What's happening in Belgium?" and indicated they found its ballooning budget and balance of payments imbalances unacceptable. Earlier, Mr. Vandeputte said that unless it narrowed these deficits it might have to go to the IMF some day — like the developing countries.

Analysts said Belgium's financial crunch sbould not be exaggerated. It still has a prime standing. And, with Euromarkets flush with cash and countries like Poland and Zaire lurching toward default, lenders are not going to question any Western country too closely.

Nevertheless, the country's record is so discouraging that some of these same analysts bonestly fear a re-examination of the rating. "Things are in a terrible mess, and I'm not exaggerating," a British economist employed at one of the banks said.

Belgian banks no longer mince words in their denunciation of state borrowing policies. Societe Generale bas, in separate studies, recently described overspending as an intolerable burden and said foreign borrowing is leading to a "dead-end situation."

Bank Report

In a just published report, it noted that in the first half of this year direct and indirect funded debt in Belgian francs decreased by 400 million francs, in contrast to the 65-billion increase in the same 1980 period. "This is a clear indication that the domestic market has reached saturation point," it said.

It said that central government debt totals 56 percent of gross national product, compared to 32 percent in the Netherlands and 10 percent in France, and that Belgium's financing needs, at 14 of GNP this year, are 3 and one-half times higher than the community average — "an extremely unfavorable comparison."

"Sectors other than that of the public authorities are being crowded out. Demand from the public authorities has been so intense it has largely contributed to the pressure on the domestic capital market and has thus made the conditions of access to credit intolerable for firms and individuals," it complained.

It added that many Belgian workers are turning to the black labor market and investors to foreign banks to escape crippling taxation. The state suffers from a dangerous illusion that it will not have to make fundamental choices, it said, but no country can continue "mortgaging its future indefinitely."

Other banks have joined in the public attacks on the government. Kredietbank, for example, blamed its "insatiable craving for funds" for high interest rates.

Stronger Views

If anything, bankers interviewed privately expressed ever stronger views. "The financial market in Belgium is totally exhausted," Mr. Simonart of Societe Generale said. A specialist at another bank wbo requested anonymity said, "Belgium is a lesson to the rest of Europe of the consequences of irresponsibility."

Statistics tell the tale more starkly. Domestic borrowing, which totaled 220 billion last year, reached an estimated 200 billion earlier this year, but may not go much above that because the money just is not there.

A so-called "crisis borrowing" in June raised a disappointing 77 billion, despite special tax advantages, an interest rate of 13 percent and issue price of 97 percent, and an exchange rate guarantee expressed in ECUs, the basket currency of the European Monetary System.

In September, the public financing institution Credit Communal launched a 13.5 percent eight-year bond issue priced at 98 percent for a record yield of 14.19 percent, but banks showed no enthusiasm. Credit Communal obtained firm subscriptions of only 20.5 billion, two-thirds the goal.

But the state's gross borrowing requirement keeps climbing, to an estimated 570 billion this year from 421 billion in 1980, 333 billion in 1979 and 260 billion in 1978. It is expected to steady next year at 500 billion to 550 billion — although such predictions in Belgium habitually are overoptimistic.

At the end of 1978, the government abandoned a 10-year pobcy and turned abroad for funds. In 1979 it raised the equivalent of 71 billion francs this way, in 1980 another 150 billion and in the first seven months of this year 172 billion, for a total of 393 billion. The public authorities have launebed three "jumbo loans" to consolidate short-term borrowings, but opinion is divided as to whether it will attempt another such giant operation soon. Some analysts wonder wbether it can continue to get the same favorable conditions, including ⅜ over the London interbank offered rate for at least part of the duration.

On the last loan, the price was divided between ⅜ for the first four years and ½ for the remaining five. Simultaneously, Belgium raised $500 million in the United States over seven years with a split of ¼ and ⅜ over the U.S. prime rate.

In early October, two state companies easily raised $250 million in the syndicated market with spreads over Libor unchanged from the earlier jumbo. However, the lower rate of ⅜ applied to shorter periods and the higher rate of ½ for longer spans.

About the same time, the government was negotiating its first private borrowing on the Japanese domestic market in a "test" operation aimed at raising 10 billion yen.

An official at Societe Generale said he strongly doubted it would attempt another jumbo this year. But a paper published by Paribas Belgique, the No. 4 bank, was less sure. "The substantial volume of short-term foreign currency credits that is being obtained ought to be consolidated soon by a new jumbo loan," it said.

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitual Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortgages enormously the chances of converting our structural crisis into a fundamental recovery."

Mr. Lenotte at Bruxelles Lambert points out that the policy of supporting the Belgian franc at all costs is in part responsible for the decision to look abroad for money, for it pusbes interest rates high. He thinks domestic franc rates might soon surpass U.S. interest levels.

"The fact is, we'll bave very high-term interest rates compared to other currencies. This will make it more difficult for the government to borrow on the internal market, unless it jacks up long-term interest rates," Mr. Lenotte said.

He said most Belgian banks — his included — had managed to reduce their assets in long-term investments and increase their short-term lending, thereby increasing their profit margin in the past year or so.

"Our profitability has improved very substantially and it will continue to do so," he said. Predictions that Bruxelles Lambert will show an increase in profits in the business year that ended Sept. 30 to between 600 million and 800 million francs from 303 million last year and that it will resume payment of a dividend, are probably correct, he said. The board of directors must approve all balance sheet decisions.

Only a year ago, still feeling the effects of heavy foreign exchange losses in the early 1970s, and suffering from a bloated staff and too many fixed assets, the bank instituted a program of wage and spending cuts and withheld dividend payment. It continued a policy of trimming its personnel through attrition.

The bank, Mr. Lenotte said, had instituted fundamental structural reforms. It has special strengths that will assure continued expansion, notably a growing role in international banking and a computerization of clerical work that surpasses the efforts of its major Belgian competitors.

Mr. Simonart claimed Societe Generale has the most impressive overseas operations. Other strong points included the scope of its Eurocredit operations, its "solidity," its organization, its advanced technology, and its very size.

He said that, as the oldest and biggest Belgian financial institution, it had to be especially careful to conduct its business prudently and responsibly. "It's really the institution of confidence," he said. "If we're strong, then the Belgian economy can only benefit. If we're sick, that would be a serious matter for the state."

Its outlook, he said, is reasonably good, although it is difficult to predict whether profits will exceed last year's 1.9 billion francs. He declined comment on the amount of the dividend, which last year was maintained at 225 francs. The consolidated balance sheet at the end of June had risen to 1.157 trillion francs, nearly as big as the central government's budget.

Kredietbank considers itself the most dynamic of the big three, and claims it has made a bigger push to

(Continued on Page 15S)

Filipino Financial Sector Is Coming of Age

MANILA — The Republic of the Philippines covers a land area of 300,440 square kilometers (115,385 square miles) and is an archipelago of 7,107 islands. Eleven of these account for the bulk of the land mass, and Luzon and Mindanao are the two largest. The islands extend nearly 1,920 kilometers, and are located approximately 1,100 kilometers off the China coast northeast of Borneo, and north of the Celebes and Moluccas.

Their position has resulted in mass migrations and frequent foreign occupations. What was a Malay ethnic group has been significantly influenced by Chinese and Spanish cultures. At the same time, Japanese, Polynesian and American influences are noticeable. The impact of the latter bas been felt not only in commmerce but also in the use and pronounciation of English. The combination of ethnic and cultural backgrounds plus a greater commitment to education has given the Filipino labor force a bettern education than most others in Asia.

The Philippines is a one-party republic, which gained independence from the United States on July 4, 1946. President Ferdinand Marcos continues to exercise national leadership under martial law declared in September, 1972. A referendum held in February, 1975, reiterated popular support for the president's policies and programs. The martial-law regime resulted in substantial government reorganization and has introduced far-reaching political and social reforms.

The economy is primarily agricultural, with sugar and coconut products accounting for nearly 50 percent of exports. Japan and the United States are the country's leading trade partners, although following the rise of energy costs in recent years, ties with the Middle East have increased considerably.

The nation has been skillful in tapping the international financial market. New mandates for Filipino debtors on the Euromarket in 10 months this year totaled $1.42 billion.

The gross domestic product amounted to $35.69 billion in 1980, compared with $29.64 billion for the previous year. On a per capita basis GDP was $621 in 1979 to $727 in 1980. The 20.4 percent growth rate witnessed in GDP for 1980 compares with a more modest, but nevertheless high 5.7 percent growth for 1979. The manufacturing industry has grown rapidly in recent years despite a slight loss of momentum in 1979, when the growth rate was 5.4 percent compared with 6.8 percent for the preceeding year.

The mining and quarrying industries have expanded steadily for many years. In 1979, an oil price increase swept other commodity prices upward and the industry registered a 17.6 percent increase, which compares with a 3.9 percent rise in 1978.

While local banking and finance can trace its beginnings to the 19th century, much of the structure of the Filipino financial sector is the direct result of the central bank's efforts over the last decade. The nation's critics point out that in certain circles President Marcos is far from popular. Yet the fact remains that the Philippines is extremely popular with international banks and the terms obtained by borrowers this year show a declining trend. True democracies along European lines are rare in the Third World, and some bankers express the view that the democratic process would be too slow for the fast-moving economies of the Third World.

The Philippines has been skillful in tapping the international financial market. The total volume of new mandates for Filipino debtors on the Euromarket for the first 10 months of this year amounted to $1.42 billion, which compares with $699 million for the corresponding period of 1980. The total foreign debt of the country at the end of December, 1980, amounted to $12.27 billion, an increase of 25 percent over the previous year.

The central bank has raised five loans between January and the end of October this year, with lending margins showing a declining trend. In February, Chase Manhattan Asia raised $50 million for the central bank of the Philippines, over four years with a spread above London interbank offered rate (Libor) of 1 percent. In October, the central bank signed a $100 million credit for 10 years lead managed by BT Asia, the Asian arm of Bankers Trust and the Industrial Bank of Japan. The spread for the latter deal being ¾ percent for the whole 10 year term.

A further confirmation of the trend in spreads for Filipino borrowers is that BT Asia and Sumitomo Finance raised $60 million in August for the National Power Corporation over 10 years with a spread of ¾ percent for 6 years and 1 percent for 4 years.

In the private sector, terms have also declined slightly, but comparison is difficult as there are few borrowers. In March, Asia Brewery Inc. mandated a group of banks under the joint lead management of Marine Midland Bank Ltd. and Philippine National Bank to raise $60 million over 8 years (2½ years grace) with a spread above Libor of 1 percent for the full term. The funds were to finance a the brewery and glass project plant. Atlas Consolidated Mining & Development Corporation came to the market for $155 million over 10 years (4 years grace). The lending margin was ⅝ points over Libor for the first five years and one point above thereafter.

— PHILLIP HEWITT-BROWN

London Is Gearing Up for the Arrival of Financial Futures Market

(Continued from Page 7S)

tures markets. Trading hours will reflect those of the cash market but with an overlap with U.S. futures markets.

At the opening of the Exchange it is proposed to trade three interest rate and four currency contracts. There will be two short-term interest rate contracts based on a three-month time deposit with cash settlement at the buyer's option. For the first of these contracts, the deposit will be in sterling with an amount of £250,000; for the second, the deposit will be in Eurodollars with a deposit of $1,000,000.

There will also be a long-term sterling interest rate contract based on a £50,000 nominal value gilt-edged security with 20 years to maturity with a coupon of 12 percent. The four currency contracts will be in sterling, Deutsche marks, Swiss francs and yen, all quoted against the U.S. dollar, with the size of the contract being approximately £50,000. Of these seven contracts, particular interest has been aroused by the Eurodollar time deposit contract, especially by borrowers in the syndicated loan market. It is already clear that research is active among Euromarket participants in the functioning of futures markets and strategies that can be applied to interest rate risk management. Fully developed hedging programs are complex.

Futures Contracts

It may be useful, however, to illustrate how futures may be used in the Euromarket. Before doing so, it is worth stressing that LIFFE will complement and supplement the existing, highly efficient forward markets, which will continue to offer a tailored service to institutional participants. The contribution that LIFFE can make to the market will be to broaden the range of potential participants, to provide greater flexibility in allowing positions to be liquidated at any time without reference to the original counterparty and to reduce the credit risk associated with the forward market.

Once the market has liquidity and depth, the availability of futures contracts will make a significant contribution to price discovery in the Euromarkets. This will provide greater flexibility to borrowers in establishing the cost of loans at any time of their choosing; no longer will the rate be fixed by whatever is the prevailing rate at arbitrary rollover dates.

Prices on financial futures markets tend to mirror interest rates in the cash market; when rates fall, futures will rise, and vice versa. So the sale of a futures contract (a short hedge) provides insurance against a rise in rates. If interest levels go up, futures prices will decline correspondingly. The profit on the short hedge futures positions will offset the increase in borrowing cost in the cash market. On the other hand, if interest levels fall during the life of a short hedge, lower cash market funding costs will balance the loss on the futures contracts.

Broadly, then, a short position in a Eurodollar futures contract, where one trading unit equals one million dollars, will fix the borrowing cost. A sale at 85.00 means that the yield for a three-month time deposit in a delivery month is anticipated by market participants to be 15 percent. If the futures price declines for that delivery month to 80.00 (20 percent), funding in the cash market will cost roughly 5 percent more — but the profit on the hedge will pay for the extra cost. To take off the hedge, an amount equivalent to cash drawn down is bought in the futures market for the same delivery month as the original sale. Difference accounts are drawn up and the net proceeds serve to reduce the London interbank offered rate (Libor)-based borrowing costs to the rate of 15 percent which the short hedge enabled the borrower to lock into.

Management Time

It will be clear that timing of hedge entry and exit points is of paramount importance, and decisions must be closely based on trends developing in the cash as well as the futures markets.

Undoubtedly the major investment, which people new to futures must make, is in management time — to understand the dynamics of the futures market and to be able to assess critically the factors that determine futures prices. These include not only fundamental economic criteria but market indicators such as liquidity ("open interest"), the price relationship between different months ("spreads"), the relationship between the yield in the cash market and the futures market ("basis") and many other factors affecting the shape of the yield curve. This understanding is essential if investors are to make appropriate selective use of futures.

During the months leading up to the opening of LIFFE at the Royal Exchange, the Exchange and member firms will be undertaking a major education program. This will be aimed at assisting those not yet familiar with financial futures to evaluate how they can benefit from the opportunities that this new market will offer.

Michael Jenkins is chief executive of the London International Financial Futures Exchange.

Eurobond Mart Sees 'Year of the Dollar'

(Continued from Page 7S)

swallow large losses on unsold paper. Although this procedure fell into disrepute during the year, of late, with the market conditions rapidly improving, it is back in favor with lead managers.

'Pre-Priced Deal'

The preferred variation on this theme is the "pre-priced" deal, where the lead manager in consultation with a group of co-managers together set the terms at which they all buy an issue. This spreads the risk among a oumber of banks and probably also helps assure more reasonable pricing as a group of banks is less likely to acquiesce to the borrower's demand for very fine terms than is a sole manager.

And nf course the open-priced deal is back in fashion. This is classic styling with announcement nf an issue followed by a selling period of a few days to a week to allow underwriters to sound out their client willingness to purchase the paper at the indicated terms. These terms then may altered in light of the response and prevailing market conditions and the terms, of late, have tended to be very realistic — the only way underwriters can hope to lure back the investors burned by the unrealistic pricing of new issues during the last year.

All this means a borrower can close a deal much more quickly than in New York. Another factor attracting borrowers here is the low call protection afforded Eurobond investors. Bonds sold in New York rarely can be redeemed prematurely whereas Eurobonds can frequently be called after as little as three years at very modest penalty rates to the issuer. In addition, the cost of doing business bere can be very much cheaper than the cost to a borrower in New York.

Institutional Market

International investors who want to add dollar assets to their portfolio frequently prefer to buy Eurobonds than bonds in the New York market, where taxes on interest income are withheld. The Eurobond market is tax free, leaving it to investors to declare to the tax authority whatever they want to declare. This creates a certain demand for dollar bonds which does oot find a ready outlet in New York.

In addition, the U.S. market, concentrated in New York, is almost exclusively institutional whereas the mix of retail and institutional trade spread over a wide geographic area tends to exaggerate the "unsophistication" of the Eurobond market. The result is that conditions here tighten less fast than in New York, enabling borrowers to raise money more cheaply here than in New York.

The reverse is oot true. As markets improve, New York houses move in rapidly to buy up Eurobonds if the terms here become more generous to investors than in New York and this tends to equalize yields.

Investment bankers calculate that top U.S. firms borrowing in the Euromarket save as much as a quarter percentage on what they would have had to pay in New York. Curiously, lesser-ranked credits do even better — saving up to a full percentage point — as the differentiatinn investors here make on credit standing is less rigid than in New York.

But unlike New York, where long-term issues of 20 years or mnre are still possible, the Eurobond market has drawn the line on lnng-term issues to 10 years. The only Eurobonds with a 15-year maturity are those with an equity kicker — convertible over the life nf the issue — into shares of the issuing company.

'The mix of retail and institutional trade spread over a wide geographic area tends to exaggerate the "unsophistication" of the Eurobond market'.

Reasons for Demise

The demise of the long-term market is due tn the disillusionment nf investors who, over the years, have seen their capital eroded as bond prices have declined and income cut due tn the rise in inflation.

As a result, to be able to market even medium-term issues, investment bankers have resorted to what they themselves refer to as gimmicks.

These include issues with warrants, issues bearing no coupon or a rolling rate of interest and issues sold at enormous discounts from face value. The rationale behind each of these innovations was an attempt to marry investors' unwillingness to buy long term with the borrowers' need fnr such funds.

The zero coupon is really only of interest to pension funds and other sucb institutional investors as it is the only way such investors can guarantee a fixed yield to maturity — a key number for sucb institutions as pension funds, which know what income they will need to meet their obligations in coming years.

A good example of bow these new techniques work was Citicorp's $100-million issue earlier this year of three-year zero-coupoo ootes bearing two warrants to buy, within the oext year, two seven-year zero coupoo bonds whicb will be issued to yield 14½ percent.

The three-year ootes were sold at 66¾, meaning investors paid $667.50 for eacb bond ooniinally valued at $1,000. That works out to an effective yield of 14.42 percent. However, the warrants were estimated to have a value of $10 each, which, when added into the calculation, raised the effective yield to investors to 15.60 percent.

Warrants have added a dash of speculation traditionally missing in bond markets and work much like stock options — for a minimum sum, investors get the right to purchase securities at a fixed price within a certain date. If bond prices rise and yields drop, the warrant to buy the Citicorp paper yielding 14½ percent could rise very sharply in price. In fact, they currently are worth $34 each.

The rolling-rate notes are a variation on floating rates notes.

'Based on a wide sample of representative issues, FRNs have generated a 13.8-percent compound annual total return since the start of '78.'

Rollers are long-term paper that carry a fixed rate of interest for three years. At that time, the coupoo will be reset and investors can keep the paper earning a new rate of interest or can ask to be repaid. The borrower is under no commitment as to bow the oew coupon will be set. Thus, the borrower can set terms that are very attractive to investors to lure them into retaining the paper or can set less attractive terms if the desire is to force redemption and effectively scuttle the issue — which could be the intention if the long-term market in three years' time is open and the borrower want to issue debt at a fixed rate deemed to be attractive.

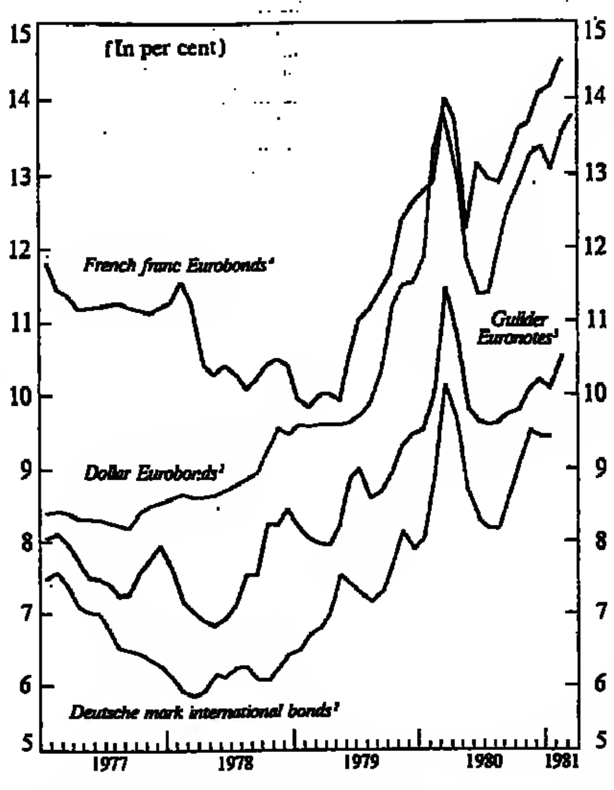
Floating rate notes, which carry a coupon rejiggered every three or six months at a fixed percentage over the London interbank rate, have been one of the most effective ways to raise medium- to long-term cash and have proved the most rewarding to investors.

According to a recent study by Salomon Brothers, the New York investment bank, "the return on FRNs in recent years has been higher than that of any major domestic or international bond or money market instrument in any of the principal currencies. Based on a wide sample of representative issues, FRNs have generated a 13.8-percent compound annual total return since the start of 1978."

Further, the Salomon study states that, better than any other instrument, FRNs have maintained their capital values — trading virtually at par on refixing dates and close to par at other times. Debunking a long-held fear that capital values would fall when interest rates decline as investors rush out of floaters into fixed-rate instruments, the study notes:

"The behavior of FRN prices relative to interest rate fluctuations contradicts market mythology that says switching from FRNs to straights during periods of declining interest rates might depress FRN prices. Indeed, arbitrage by bank investors will virtually guarantee that the relationship between FRN current yields and bank funding costs will remain relatively constant (i.e. that interest rates and FRN prices will move inversely.)"

International Bond Yields[1]



Source: OECD, *Financial Statistics.*
[1] Secondary market yields.
[2] With remaining maturity of 7 to 15 years.
[3] With remaining maturity of 3 years and over.
[4] With remaining maturity of 3 to 7 years.

Chart: International Monetary Fund

French Technocrats Face Baptism of Fire

EUROMARKETS

By Alan Tillier

PARIS — The young, highly educated technocrats now working on French banking reform at the Economics Ministry face a baptism of fire. Their own minister, Jacques Delors, has spoken of the "passionate forces" involved in the forthcoming nationalization of credit. Mr. Delors, however, hopes that the beated debate will lead to a calmer study of just how the banks can stimulate investment and consumption.

The nationalization of 36 major private banks — CCF, Paribas, Suez, Rothshild, etc. — is now being decided in the French parliament and it is expected that the banks will be taken under state control by Christmas, despite delaying tactics in the largely right-wing French senate. In the spring there is expected to be an orientation law on banking reform designed principally to open new credit lines for France's 1.5 million small and medium-sized firms, which have bitterly complained in the past that the big banks, including the state banks, have virtually ignored them wben a degree of risk was involved. The credit changes will be a three-stage affair.

First comes the move to bring the private banks under government control in the same way that the French Big Three (Banque Nationale de Paris, Credit Lyonnais and Societe Generale) were nationalized after the Liberation. The left's buge parliamentary majority ensures that this will come about despite sharp polemics over compensation, notably with foreign shareholders (French branches of foreign banks will not be nationalized).

The government also has begun legal proceedings against much of the top echelon of Paribas for alleged illegal transfers abroad, a counterpunch tn Paribas's spinning off some of its more lucrative foreign subsidiaries prior to nationalization. Mr. Jacques de Fouchier, who returned temporarily to head Paribas, fears that the whole group will break up under government measures directed at Paribas world boldings. If the same "disintegration" occurs at Suez and CCF, then the structure of French banking will be revolutionized, for these three financial houses wielded enormous industrial clout in the 1960s and 1970s.

The French banking network abroad would also be threatened. The government seems aware of the danger, for it has decided that the new head of Paribas should be Mr. Jean-Yves Haberer, current head of the French treasury, a virtually all-powerful body in the allocation of state funds. The fact that Mr. Haberer is moving over to Paribas is evidence that the government wants to preserve this buge banking group with its multiple interests in bundreds of French companies as well as a network of shareholdings abroad.

Secondly, the French government is looking at the whole savings structure. This is a veritable thicket of problems — confidence in the state, the need for longer-term savings, disastrous gold-linked issues made by the previous regime, and the future of the recent mutual funds with their tax advantages, which attracted 4 million investors.

Thirdly, the French government has to decide upon meaningful reforms for French banking, bearing in mind the failure of past reform proposals aimed at both decentralization of the major state banks and greater competition all around. Recently, there were examples of the Credit Lyonnais, in its home base of Lyon, exercising greater autonomy, but there were far more cases of new industries coming up against bankers who asked: "What have been your results for the past five years?"

The previous government called upon senior civil servant Jacques Mayoux to draft a wide-ranging reform of the banking system. That was in a context of "freeing" industry from government controls. Although the new government wants to extend the state's control of industry and banking, the upcoming reforms could well be similar to those proposed by Mr. Mayoux. He sought a regionalization of the Big Three in order to provide an easier flow of credit to the smaller firms. While the socialist technocrats wrestle with next year's reform, it is evident that this same easier access is predominant in the minds of Premier Pierre Mauroy and Economics Minister Delors.

After saying that new taxation would only hit the oil and banking sectors, the French premier added: "We seek to extend the decisions of the Liberation...and that an apparatus of credit will from now on support all of our firms."

The government's policy is to direct credit and investment into areas of public interest. Mr. Delors, however, said banks will remain free and that short- and medium-term credit will not be governed by employment considerations. Jean-Francois Revel, the former editor of l'Express magazine, says that there are already signs of the government choosing between *bons patrons* (good employers) and *mauvais patrons* (the bad variety). Credit, he claims, will become even more government-controlled than in Austria, where the state *Plimsoll mark* is 60 percent. Austria tends to be an example for the new French government.

Mr. Mauroy has been going further along the interventionist road during his provincial speeches than he has in his long declarations before the French National Assembly.

He told the Assembly: "Nationalization of credit will not affect pluralism and competition between banking establishments. It will stimulate this in some cases. It will permit a reform in favor of medium and small firms, which has been sought for years but which previous governments have not carried ont. With the state as their shareholder, the banks will work decisively for the economy. They will pay more attention to the needs of their clients. They will be more concerned about employment."

"The thrust of the upcoming reform is essentially to provide this extra financing for the PME (*Petites et Moyennes Entreprises*). Their situation has become dramatic in many cases," said an aide of Mr. Delors. He added: "However, we realize that nationalization of the banks and the reform of the banking system is going to be far more difficult than the nationalization of the major industrial groups." The Credit Agricole farmers bank could also have its statutes changed.

The government said it wants to change the previous mentality of gathering in money to one turned more toward risk capital. This is slightly unfair to the big banks, which have contributed to the French industrial boom for the past 20 years. The new government is looking for a new mix of state and market forces. After all, the policy of nationalization in France is accompanied by a policy of administrative decentralization. Mr. Mauroy said: "The government asks banks to develop considerably their loans to the medium and small firms and ideally this aid will be complementary to other state aids."

State Money

There are various funds to direct state money into industry. Presumably all — state banks, ex-private banks and funds — will now be working more closely together for, as Mr. Mauroy said: "There is no new policy without effective control of credit." Details await the outlining of the intermediary French two-year plan in December, but reports talk of a regrouping of banks and a broadening of their capital base. It seems that some sectors of the French economy will benefit from more advantageous rates. The government will be pumping more money into the economy — a lot of it raised by buge loans — and it wants the banks to follow suit.

Mr. Delors says he is no hurry about the reform, but he has some sharp words for French bankers —"Under-estimating the general interest, egoism and waste." The latter was a reference to the rush to open new branches, expenditure on publicity and so forth. He was also highly critical of bankers supporting a firm one day and dropping it the next — "*le coup du banquier*," be called it. He wants a strengthening of the medium-to-big French banks.

There are four French banks in the world's top 10 but only 28 in the world's top 500. The French minister wants a more West German balance — one in the top 10 but 38 in the top 500. He is preaching audacity, saying that it has been the state rather than the banks which has accepted risks since the 1950s. A warning shot has come from opposition deputy Gilbert Gantier, who noted that socialist regimes in West Germany, Norway and Britain had shied away from banking nationalization. He said the countries that had nationalized banks were those in the Communist bloc and some in the Middle East and Africa.

Alan Tillier, a free-lance journalist, is n frequent contributor to IHT special supplements.

The Fine Art of Bond Computing in the 'Derivative Age'

By William Ellington

LONDON — Historians like to put labels on eras. For instance, we have the Age of Reason, the Renaissance, the Dark Ages, Middle Ages and so on.

I think I know what the label for our era will be: the Derivative Age. I confess that Derivative Age isn't very pleasing to the ear. Maybe a future historian will find another term that expresses the concept of one thing being prodoced from or based upon another thing.

What started me thinking about our era was the delivery of a bond calculator sponsored by the Associatioo of International Bond Dealers (AIBD). The machine is actually a computer than runs four programs known as modes. One program is for arithmetic and operates in the same way as most calculators. Another program is for yield calculations; a third is for average life computations and a fourth works out convertible bond premiums and discounts.

The yield mode makes yield-to-maturity calculations in two seconds, whereas the calculator I previously used took about 10 seconds. Speed is important if yon are comparing the bid and offered yields of 20 different issues. If a dealer is paid £11.25 an hour, the amount of time saved by using the AIBD calculator will pay the £250 cost of the machine in ooe year. The catch is that oo respectable bond dealer is paid such a low salary.

Equally important is the ability of the calculator to produce yields of U.S. and British treasury bond issues, which are based on a 365-day year and semiannual compounding, and quickly coovert these yields into annual rates that allow comparison with Eurobond issues.

What concerns me somewhat is that we might be talking the same numerical language without knowing what the mumbers mean. I have always been bothered by the fact that yield-to-maturity calculations don't correspond to what an investor actually receives as income.

For instance, if you have a 10-year bond yielding 15 percent and another 10-year bond yielding 18 percent, the yield-to-maturity calculation for the first bond assumes that coupon payments are reinvested at 15-percent annually for the next 10 years, whereas the assumption for the other bond is a reinvestment rate of 18 percent. If both issues have the same coupon date, it would be logically impossible to have different reinvestment rates. Furthermore, it is irrational to assume a uniform reinvestment rate in our present world of highly volatile interest rates.

From a practical point of view, it is essential to have a consistent method of comparing boods of different coupons, maturities and prices. If everyone uses the same basis of comparison, traders and investors will be able to agree on which bonds provide the highest and lowest return.

Nevertheless, this separation between what we think we get and what we actually get is likely to get wider as the derivative markets become more developed. For instance, we now have Eurobond issues with detachable warrants to buy another Eurobond issue. By buying the warrants, we get the right to buy a bond at a yield that will never exist in reality.

It would seem to be only a matter of time before a put-and-call market in Eurobonds develops. The mechanics would be easy to implement, though the tax ramifications might be inhibiting. Investors, preferably institutions, would provide a negotiable instrument of limited duration, saying that they will either buy a certain amount of bonds at a price or sell them at a price. This would allow Eurobond trading to take place without actually requiring bonds to be purchased or sold.

Those traders who are uneasy with a large call position might want to hedge their position with three-month Eurodollar deposit contracts traded on the London International Financial Futures Market.

One hopes that the AIBD will produce a Mark II or Mark III calculator to cope with all this. We need to be able to compare the forward-forward rates in the interbank market with Eurodollar futures contracts and relate this to discounted treasury bills before working out whether we can arbitrage between two different call optinns on Eurobonds. As a start, it would be handy to have a calculator program to allow yields to be calculated with a series of reinvestment rates.

William Ellington is n London-based journalist who specializes in financial and economic news.

'Dogs' Help to Counterbalance 'Super Deals' Among Recent Eurobond Offerings

Special to the IHT

LONDON — In a year that saw fluctuations in the world fixed-interest markets greater than at any time since the pre-World War II days of hyper-inflation, investors encountered extremes of success and failure with the Eurobond offerings they bought.

"Super deals" solidly placed and able to withstand the wild interest rate gyrations of 1981, were unfortunately counterbalanced by "dogs" so awful that even the greatest "animal lovers" could not be persuaded to acquire them. The picture varied from currency sector to currency sector, but with the U.S. dollar most sought after, the bulk of the winners and losers were inevitably in this sector.

The criteria applied in establishing whether an issue was successful or had failed were straightforward. A "winner" had to show an exemplary primary market debut, which may have included changes in the offering amount, coupon or maturity range, followed by an above-average performance in the secondary sector. A "loser" was endowed with the opposite characteristics. With this in mind, the five best and five worst transactions of the year were selected from suggestions put forward by market participants.

The choice of the best performers at the end of August would have favored a number of Japanese convertibles, but the collapse of the Tokyo stock market removed all of these from the list. Similarly, the dreary role to which the Euro-Deutsche mark sector was relegated this year produced few opportunities for good or bad to prosper. Among other currencies, only the French franc made sufficient impact to produce one of the worst placements of the year in the form of the Lafarge Coppee SA convertible.

Winners List

The issue was launched in January, totaling 225 million francs over 10 years with a coupon of 11 percent. But at the closing in February, it had been reduced to 190 million francs with the coupon increased to 11¼ percent for the first five years and 11½ percent for the remaining five.

The management group of 13 led by Credit Commercial de France lost three co-managers, confirming suspicions that the issue should have been pulled and not, as generally suspected, deposited on the books of the managers. The bonds began life in the secondary market at 94-96 only to continue their decline to a recent "trading" level of 87½-89½.

Floating rate notes, which according to Salomon Brothers gave investors the best return over the past five years, have not been renowned for producing spectacular issues, but one offering deserves an award as a 1981 winner. Merrill Lynch Overseas Capital NV's FRN totaling $100 million over six years issued at 99¾ since its launching, traded consistently above par, and reflects the appealing conditions presented to investors.

The notes offer the holder a redemption option at par after three years and also enable the borrower to determine the coupon level singly at a rate favoring the holder. Although the offering amount was not increased, Merrill Lynch International's handling made this the FRN of the year.

Among straight issues, the premier of Walt Disney Productions $100-million 1986 15¾-percent notes enabled investors to acquire a rare paper, which to date has not failed to impress. Comparable to the past Philip Morris and Exxon straights, this unique "Mickey Mouse" paper traded at a premium which throughout its life will give investors rare capital security.

The issue was floated by Morgan Stanley International, also the leader of the spectacularly trebled offering, the GMAC Overseas Finance Corp. 1984 16½-percent notes. The original amount of $100 million was increased to $150 million and then doubled as the launching into favorable market conditions produced overwhelming demand for this paper. The after-market price performance was equally impressive and has varied little from the original offering level of 99¾.

GMAC of Canada managed to match this triumph with its $60-million Canadian 1987 16-percent notes, increased from $40 million Canadian. The placement was also led by Morgan Stanley International, which has rediscovered that old winning touch. The notes were snapped up by small retail investors who found the record 18-percent coupon irresistable. The secondary price, currently at 104-105, looks well set to remain permanently above par.

Another doubling of an immensely successful transaction took place in the IBM World Trading 14¾-percent 1984 note issue, led by Salomon Brothers International. Though the offering was increased from $50 million to $100 million, the amount could not satisfy retail demand and ensured that the dealing price remained around par to yield, at present, 100-plus basis points less than comparable prime debt.

The losers list is dominated by Japanese convertible issues, which, through the sharp decline of the Tokyo equity market, saw dramatic reversals in some of the hottest deals launched during the year. Despite the criteria, which ignore the price performance of an issue at any given point but take particular note of the syndication skills and offering terms in relation to similar issues at the time of launching, the number of Japanese placements qualifying as losers was overwhelming.

Nikko Securities' handling of Nippon Chemi-Con Corp.'s $25-million 5-percent convertible due 1991, came in for harsh criticism from market participants. The original amount of $20 million was raised by $5 million and the coupon of 5½ percent cut to 5 percent despite retail interest being soggy.

When released into a market flooded by Japanese convertibles, the price inevitably collapsed within a week of launching to 88½-89½ and continued to slide to the present 74-76. Two further Japanese convertibles were classed as losers this year, following some very weak syndication and abysmal after-market support.

The Dai Nippon Ink & Chemicals Inc. $40-million 1996 6 percent, and the Minolta Camera Co. Ltd. $40-million (cut from $50 million) 1996 5-percent Daiwa Europe were transactions which during their respective selling period did not appeal to investors, and should either have been pulled or had their offering amounts reduced substantially. Despite the absence of retail interest, the placements were forced on to underwriters who dumped the unwanted bonds into the secondary market, where they have not been able to recover, languishing at 78-80 and 72-74, respectively.

The final dog of the year award goes to Yamaichi International's $25-million 5½-percent 1996 convertible for JACCS Co. Ltd., which lost the support of some influential co-managers during the selling period and should have been shelved. Instead, the borrower persisted with the flotation, and launched the bonds, which dropped to 90-91 in the first week and continued their way down to the recent 79-81.

The repeated absence of syndication skill, insensitivity to market sentiment and environment, plus a lack of secondary market support by certain Japanese managers, frustrated professionals and investors alike, and it calls for some serious soul-searching among members of the Japanese investment banking community and the Japanese Ministry of Finance to correct an otherwise commendable track record in the international capital markets. In contrast, the professionalism of the U.S. investment houses has deservedly given them all the winners this year.

Oil Boom Leaves Financing, Transportation Far Behind in Mexico

By Phillip Hewitt-Brown

LONDON — Mexico gained its independence from Spain in 1821. For 150 years it was faced with a hard and long economic struggle for survival. The dramatic leap in oil prices in 1973-1974, however, prompted increasing exploration and a sharp rise in oil exports.

The country has since been faced with the phenomenal task of developing a firm industrial base, an infrastructure and an educational system for a population of 70 million. Estimates regarding literacy vary considerably, from 65 percent by U.S. government sources to 84 percent officially claimed by the Mexican government.

The soaring price of oil in the 1970s enabled the nation to embark on ambitious plans and mortgage itself to the hilt. Foreign borrowing has played a crucial role in this program, but the universal rise in interest rates coupled with a world glut in oil has acted like a pincer movement on the Mexican economy.

Since 1974, Mexican public-sector foreign debt has mushroomed from $8 billion to an estimated $40 billion for the year ending December 31, 1981. Looked at another way, the Mexican public sector has borrowed $52,185 an hour since January 1, 1975. Though no official statistics are available for the private sector for the same period, an study by Grupo Industrial Alfa has estimated it to be around $15 billion.

Problem Areas

The Gross Domestic Product (GDP) of Mexico rose sharply between 1979 and 1980 from $119.9 billion to $183 billion, which on a per capita basis represents a gain from $1,810 in 1979 to $2,614 in 1980.

According to the latest Inter American Development Bank Report on Economic-Social Progress in Latin America, the manufacturing industry's share of the Mexican GDP has risen from 22.6 percent in 1960 to 27.1 percent in 1970, and reached 29.9 percent in 1980. The expansion has been more rapid than the Latin Amerian average, but not nearly as quick as demand would have permitted.

Domestic prices in Mexico have risen during the past two years at a rate not totally compensated for by a currency devaluation. This in turn has constrained several emerging industries.

Further limits have been posed by the nation's antiquated railroad system, which has been used primarily to handle expanding petroleum production. The country has 19,680 kilometers (12,300 miles) of railways, of which 102 kilometers are electrified. Inadequate capital investment in road systems has caused limited success in efforts to overcome supply and distribution problems.

Earlier this year, Mexico made a major blunder with its oil pricing policy. The country refused to reduce prices at the first signs of a glut, and thus priced itself out of a declining market. Later, it was obliged to sell well below market prices to maintain cash flow. Therefore, even if figures on the volume of Mexican oil exports are accurate, it is still difficult to assess the country's 1981 earning picture.

The domestic market was not capable of financing the industrial growth of recent years. Consequently, many borrowers resorted to syndicated Euroloans, the U.S. private placement market and floating-rate note issues. Currently, the supply of funds appears to be declining while demand will probably increase.

The Mexican economic situation is causing bankers to move with caution, while the number of U.S. insurance companies active in the U.S. private placement market has shrunk from between 12 and 14 to four in less than three months. One way of increasing available funds would be to withhold more taxes, but such a move cannot take place at the stroke of a pen.

Earlier this year, Mexico's withholding tax was reduced from 21 percent to 15 percent, giving lending banks an immediate 7.6 percent increase in the return on their Mexican assets. However, it will take larger incentives than this to assure that an adequate volume of funds continues to flow into Mexico. Some banks are quickly approaching their countries' limits for Mexican debt.

Inflated Debt

Mexican debt has mushroomed in recent years. During the first nine months of 1981, the country mandated $11.9 billion of syndicated credits and "club" deals in the Euromarket. This figure represents a 164 percent increase over the $4.5 billion obtained during the same period in 1980.

The figure for 1981 has been inflated by the $4 billion bankers' acceptance operation for Petroleos Mexicanos, the Mexican national oil company, and masterminded by Bank of America, but the figure for the preceding year also included a $2.5 billion bankers' acceptance for PEMEX.

Mexican borrowers have a reputation of being tough negotiators, and in the past have obtained good terms by using their newfound wealth as a lever. However, now the bubble has burst with the oil glut and the debt. Currently a number of Mexican borrowers are seeking short-term funds to bridge budget shortfalls.

The alteration in market conditions has meant that many finance directors would lose face if they tapped the Euromarket at prevailing spreads. Consequently, some borrowers have been tempted to seek funds in currencies where interest rates are below London interbank offered rate (Libor) or U.S. prime rate. These borrowers seem to be prepared to run an exchange risk, which could prove to be costly. One U.S. banker thus summed up the borrowers' position: "After all, what is an exchange loss in the long term, when compared to losing face to fellow directors in the short term on borrowing margins?"

Public-sector borrowers have not been immune from market pressures for improved terms for lenders. During the first week of November, National Financiera SA (NAFINSA) mandated a group of banks to provide it with a $500-million Special Drawing Rights (SDR) financing package over eight years. This deal was the first funding operation for a Mexican borrower to contain an SDR element and reflects a continuing search by Mexican borrowers for funds from any source.

The spread on the dollar-denominated element was ⅝ percent above six-month SDR interbank offered rate. In May, the same borrower raised $250 million over 10 years, with a spread above Libor of ½ per cent or 5/16 percent over U.S. prime rate.

Rising Spreads

From the terms of the SDR operation, it is apparent that not only have spreads risen by ⅛ percent, but also that maturities have also been reduced, in this case from 10 years to eight. The average life for the latter transaction is six years, which compares with a seven-year average life for the May operation.

A comparison between operations carried during the early months of this year and those in September or October has shown that spreads have risen. Bufete Industrial de Monterrey, a civil engineering and construction group, raised $4.83 million in April. The deal had an 18-month maturity and carried a margin of 1 ¼ percent. In comparison, another private-sector construction company, Grupo Mexicana de Desarollo, last month borrowed $15 million over 2 years to fund their accounts receivable. The terms included a provision that if the borrower overran the repayment period, the 1 ½ percent margin above Libor would be increased to 1 ⅜ percent.

Looking ahead to 1982, it is possible that Mexican private-sector debtors will be crowded out of the Euromarket by public-sector borrowers. Spreads for state risks will surely have to rise as banks find the terms given in the past unacceptable. Said one U.S. banker: "Next year is going to be tough for Mexico, but I would rather be syndicating private sector paper than government risks."

Phillip Hewitt-Brown is an economic journalist based in London.

Style Still a Yawn

WASHINGTON — Sartorially, bankers have been a well-known bore for nearly 200 years. It is no different at the weeklong International Monetary Fund conference, where 5,000 bankers enroll as special guests and visitors, not to listen to finance ministers' long-winded speeches in the Sheraton-Washington's cavernous ballroom but to strike deals with them, and one another, in hotel suites and discreet bars.

The expensively sober, all-wool three-piece, with dull shirt and duller tie, is *de rigueur* daytime wear, changing to dullest possible tuxedo at around 7 p.m.

Only a few younger bankers dare face Washington's sweltering late summer in lightweight pale suits, let alone sport fun ties or almost collar-length hair.

The few female bankers around (0.01 percent of total attendance) out-dreary their male colleagues.

Even Asians and Africans from countries whose UN representatives dazzlingly outchic everyone else in New York with their gorgeously colored, beautifully cut national dress, prefer the dull look.

"It's a question of confidence," a three-piece-suited banker from one of the world's poorest countries said.

"Our national costumes remind your bankers of hippies and flower people. Whoever heard of anyone like that being a good credit risk?"

—VANYA WALKER-LEIGH

Belgian Banks

(Continued from Page 13S)

win the business of the general public, and to move into the Eurobond and foreign exchange markets. It has also made a specialty of promoting artificial basket currencies like the ECU.

"We got into Eurobonds much earlier and more actively than the others, particularly in lead-managing," an official said.

He declined to forecast profits, although Kredietbank was the only major Belgian financial institution to show a gain in its latest reporting period, by 1.5 percent to 1.76 billion francs in the year ending March 31. It also increased its dividend by 10 francs to 365 francs.

Taking Swipes

Officials at the three banks occasionally take swipes at one another. A Societe Generale official, for example, said Bruxelles Lambert's improved performance is almost solely the result of its wage cuts. He said Kredietbank was really a regional bank, with activities mostly in the Flemish-speaking half of the country.

A Bruxelles Lambert researcher said Societe Generale would not be doing so well if it did not have so many "captive customers." And a Kredietbank source said the No. 1 bank's overseas network was mostly related to its established trading activities.

Still, competition among the three is far from fierce. The shifts in their markets are marginal. Perhaps they are more united by the concerns they share about the state of the country. The economy is a mess, and that hurts them all. Bad debt losses at each are on the upswing.

Belgian unemployment is running at a record 9.7 percent, the current account deficit is widening at an alarming rate toward a possible 300 billion francs this year, investment is falling and output stagnating. Most economists fear worse is to come. The only positive sign is continuing low inflation, estimated at 8 percent for this year.

The financial community is unanimous in arguing that the state must curb its borrowing appetite. It also agrees that reforms of the economy are desperately needed.

Mr. Lenotte said a new industrial policy should be undertaken. Austerity alone, along the lines practiced by British Prime Minister Margaret Thatcher, is not sufficient, he said. "The government should reform its finances, but at the same time, take measures to spur growth in new sectors," he said.

—BRENT BOWERS

Bond Issues Sustain Record Primary Volume

By Ian M. Kerr

LONDON — Most bond investors will prefer to forget 1981. There has been no summer rally. In fact, there has been no real rally whatsoever. The bond market's principal achievement, in an otherwise dismal year, has been to sustain primary issue volume at record levels.

Declining bond values and record primary volume make unlikely companions. The success of this improbable duo attests to the market's ingenuity for creating new financial techniques. If 1981 is remembered at all, it will probably be because this has been the year of the warrant.

Warrants have become very fashionable. But they are not new. In the Eurobond market they arrived in the 1960s. In the United States and Europe, warrants have beeo employed in sophisticated fund-raising exercises for many years. Uotil this year, warrants were associated almost exclusively with equity-related instruments. Reference to any textbook definition would reveal that warrants are a "oegotiable security issued by a company that represents a long-term option to purchase common stock of the company on specified terms."

That was fine 10 years ago. Today, warrants are no longer the exclusive property of the equity world. They are attached to floating rate notes or to convertible securities, and are not always separately negotiable. They do not always constitute a long-term option.

Warrants have suddenly become very complex. In a market that is already poorly informed, the warrant explosion creates innumerable problems. Investors may easily be buying an instrument that they do not fully understand. The new application for Eurowarrants is the brainchild of investment banking houses whose affiliations may be stronger with the borrowers than with lenders. It is in their interests to minimize the borrower's cost of funds.

If the addition of warrants to an issue reduces the net borrowing cost, investors should ask themselves whether they are subsidizing the issuer. We have reviewed all the more recent warrant issues to assess whether investors received any genuine benefit, or whether the advantages all accrued to the borrower.

Reasonable Choice

Until February, 1979, the growth of the Eurobond market with warrants had been spasmodic. Investors had a reasonable choice of issues, including such names as B.A.S.F., Jardine Matheson, Highveld Steel & Vanadium, Rio Tinto Zinc, Siemeos, Zapata and Teledyne. Only a few provided investors with easy profits. The Jardine Matheson issue was a spectacular success, rising to around 400 percent in line with the boom in the Hong Kong Stock Exchange in the early 1970s.

On the other hand, a 15-year issue by Four Seasons Nursing Homes defaulted. The revival of the warrant cult began in February, 1979, with the jumbo $200-millioo Bayer International Finance N.V. 7¼-percent bonds with warrants attached. Despite its size, the issue, under the management of the Deutsche Bank, was successfully placed. The Bayer example was followed in rapid succession by similarly structured warrant issues from the German chemical company Hoechst, and two British companies, Redland Holdings and Alexander Howden.

For warrant specialists there was nothing unusual about these issues. The borrower reduced its cost of debt-servicing by issuing bonds with a lower interest coupon than on conventional straight bonds, but compensated lenders by providing an equity option in the form of warrants to buy commou shares equivalent to the approximate face value of the bonds for a specific period. Secondary market trading in the issues was transacted in three forms: Bonds cum warrants; the warrants themselves, and bonds ex warrants.

However, in December, 1980, the warrant world changed again. Investors were presented with two new warrant formulas. The first was a convertible bond with a warrant attached. The second was a straight bond with a warrant attached. Analysts were quick to notice several important differences from conventional warrant issues. In the case of the new convertible, the warrants were non-detachable. Also, the duration of the warrants was only for six months and nine months, compared to the 10-year option on the Bayer issue.

Convertible Issues

The convertible issues with warrants attached were not an outstanding success. The first loan, for the offshore subsidiary of Anixter Bros., was reduced from $20 million to $16 million. The second issue, by Marion Corp., was withdrawn. And the third, considered to be by far the most attractive for Anacomp Inc., was reduced in size from $15 million to $12.5 million.

Investors appeared to prefer warrants attached to straight bond issues. In retrospect, that proved unwise. The five-year Credit National 13¾-percent notes due in 1986 with warrants were a major success. The formula was copied by G.T.E. and Hydro Quebec, but the euphoria proved to be short-lived. Straight bond prices were in full retreat. A warrant to buy another straight bond was seen as a disadvantage. The warrants expired without providing bond holders with any tangible added value.

The concept of attaching warrants to floating rate notes was even less popular with investors, and it has only been attempted once. The Citicorp floating rate oote issue carried a warrant which entitled holders to buy a 10-year straight bond with a coupon of 12⅝ percent. As straight bonds of comparable quality and maturity were yielding around 13.80 percent at the time, it was concluded in a summary that "if our assumptions are correct, the warrants today are therefore almost worthless." While this outspoken view may have sounded extreme, it was vindicated as the warrants did indeed prove to be worthless throughout their life.

The respectability of the warrant concept was revived with the introduction of the zero coupon and deep discount bonds with warrants. The Citicorp zero coupon issue in July was one of the year's most innovative financings. It was felt that the terms favored the borrower to a significant extent. Zero coupon bonds were, and still are, an unknown quantity. The offering yield on the Citicorp zero notes was 14.42 percent when similar maturity bonds with a conventional coupon were yielding 16 percent.

It did not require an experienced eye to see that the warrants had to have some tangible value to ensure a successful issue. The combined value of the two warrants attached to each bond would have to equal a sum which, when deducted from the cum warrant price of the bonds, would provide a realistic valuation for the ex warrant residue. Although it would have been difficult to quantify for pure analysis, the warrants proved to be every speculator's dream.

Speculative Element

In a declining bond market, the Citicorp warrants rose from $10 to $24 in less than one week, a gain of 140 percent. Subsequent warrant issues have been offered by Transamerica, Continental Illinois, G.T.E., Wells Fargo, Hiram Walker and B.F.C.E. In most instances, investor interest has focused on the speculative element in the warrants rather than the fundamental value of the underlying bonds.

Warrants have injected some life into an otherwise dismal bond market. However, not every fund manager is convinced that warrants will play any more than a minor role in the development of the Eurobond market. The skeptics point out that:

- Liquidity is poor. At present, the secondary market in warrants is being maintained by one U.S. investment bank and a firm of London stock-jobbers.
- While the liquidity problems persist, traders and institutions will not be tempted to use them to hedge their inventory positions. Hopes that warrants would act almost like a futures market will not be fulfilled.
- The most popular warrants have been attached to zero-coupon bonds. The concept of zero-coupon bonds and their longevity in the Euromarkets are still being questioned.
- Recent warrants have been too short, providing cost savings to the borrowers but little genuine advantage to the lender.
- Very few warrants have any "intrinsic" value, i.e., providing an option to buy a security at less than the price which that security would automatically command in the market. If the warrant provides an option to buy a security at a higher price than it would command in the market today, it has a oegative intrinsic value.
- The very disappointing price performance to date of bonds with warrants attached.

Better Performance

The growth potential of the warrant concept will eventually be measured by its performance. However, if investors hoped that warrants would provide a path to easy profits, they have been disillusioned. The Anacomp and Anixter Euro convertibles with warrants could have been sold at a substantial profit, but both stock prices eventually fell back in line with Wall Street. However, it is probably true that oooe of the warrants in the Citicorp, the first G.T.E. (despite the last-minute adjustment of the warrant terms) and the Hydro Quebec issues were ever exercised. The sad history of the expired bond issues with warrants attached is shown below.

The slightly better performance of the Citicorp and Hiram Walker issues is encouraging and will probably convince other borrowers to consider the warrant formula. The recent new B.F.C.E. $100-million five-year issue with warrants has attracted substantial investor demand. However, investors will also be aware that bond markets have weakened again and that yields of 17 percent on triple-A rated bonds are now available across the yield curve.

Inherent Leverage

For example, the Citicorp warrants, an entitlement to buy a seven-year zero-coupon note to yield 14½ percent until August, 1982, can hardly be viewed as a bargain when other bonds return 17 percent. Because of their inherent leverage, warrants will thrive in a bull market. However, the current prices of most warrants are already assuming a major decline in bond yields, which is a reasonable assumption but not a certainty. As all the bonds with warrants outstanding at this time are exercisable into similar or identical bonds yielding less than the market average today, the warrants cannot have an intrinsic value. Their value is based instead on expectation, i.e., they are selling at a major premium to their actual worth. Any investment based on expected rather than underlying values carries an above average degree of risk.

Ian M. Kerr is an executive director of Kidder Peabody International Ltd.

Recent Eurobond Issues Outstanding With Warrants Which Have Expired

Issue Date	Issue	Duration of Warrant	Warrant Expiration Date	Intrinsic* Value of Warrant Prior to Expiration
12.80	$16 million Anixter Intl. Fin. N.V. 8½ % convertible sub. gtd. debentures due 15.1.96 with warrants to purchase at par a similar amount of debentures (convertible into shares of common stock)	8 months	8.81	NIL
16.12.80	$50 million Credit National 13¾ % gtd. bonds due 1.1.86 with warrants to purchase at par a similar amount of 13¾ % gtd. bonds due 1.1.91. (Gtd. by France)	6 months	6.81	NIL
5.1.81	$50 million G.T.E. Fin. N.V. 13¾ % notes due 15.1.86 with warrants to purchase at par a similar amount of 16¼ % notes due 15.1.88	7 months	8.81	NIL
7.1.81	$100 million Hydro Quebec 13 % debentures due 1.2.91 with warrants to purchase at par a similar amount of 13 % debentures due 1.2.91	8 months	9.81	NIL
16.1.81	$12.5 million Anacomp Intl. N.V. 9 % convertible sub. dentures due 15.1.96 with warrants to purchase a similar amount of debentures (convertible into common stock)	8 months	9.81	NIL
6.2.81	$250 million Citicorp Overseas Fin. Corp. Ltd. gtd. floating rate notes due June 1984 with warrants to purchase at par 12⅝ % gtd. bonds due 2.3.91	7 months	9.81	NIL

** The definition of intrinsic value in the "Dow Jones-Irwin Guide" is that it represents "the current price of the common less the exercise price." In the case of bonds a warrant option to buy bonds yielding in excess of prevailing market yields would therefore have obvious intrinsic value.*

				Current price of Bonds (cum warrants)
17.3.81	$55 million American Airlines Overseas Fin. N.V. 15¼% collateral trust bonds due 1.4.86 with warrants to purchase at par a similar amount of bonds due 1.4.88	9 months	12.81	92 % (Issue Price 100 %)
28.7.81	$100 million Citicorp Overseas Fin. Corp. N.V. Gtd. zero coupon notes due 18.8.84 with two warrants to purchase two zero coupon debentures due 18.8.88 (to yield 14½ %)	12 months	8.82	72¾ % (Issue Price 66⅝ %)
4.8.81	$75 million Transamerica Fin. Corp. N.V. 7 % notes due 3.9.86 with two warrants to purchase $150 million zero coupon debentures due 3.9.81	13 months	9.82	71¾ % (Issue Price 72 %)
8.81	$75 million Wells Fargo Intl. Fin. 15 % bonds due 10.9.95 with two warrants to purchase two zero coupon bonds due 1988	12 months	9.82	98⅛ % (Issue Price 99¼ %)
14.8.81	$100 million Continental Illinois O'seas Fin. Corp. N.V. 14¾ % gtd. notes due 7.9.84 with two warrants to purchase two gtd. zero coupon bonds due 7.9.88	13 months	9.82	98¾ % (Issue Price 99¾ %)
20.8.81	$65 million Hiram Walker 15¾ % notes due 1984 with two warrants to purchase two zero coupon bonds due 1989 (to yield 15½ %)	12 months	8.82	100½ % (Issue Price 100 %)
7.9.81	$50 million G.T.E. Finance N.V. 16¾ % notes due 15.9.85 with warrants to purchase at par a similar amount of 16 % notes due 15.9.88	12 months	9.82	97 % (Issue Price 99½ %)
17.10.81	$100 million B.F.C.E. (gtd. by France) 16 % bonds due 15.11.86 with two warrants to purchase at par two 16 % notes due 15.11.86	12 months	10.82	99 % (Issue Price 100 %)

EUROMARKETS

Turbulence of '70s Breeds Investment Adviser of '80s

By Hans Rieppel

LONDON — The investment adviser of 1981 is a member of a totally new species. He will have survived some of the worst market conditions since the Great Depression. He will be more fit than his predecessors in dealing with new types of investments and with enormously volatile markets.

There is a very real necessity for this new animal to have genuine credentials. He must be able to advise on an enormous diversity of investment opportunities.

Prior to the floating of the dollar in 1971 and the Arab-Israeli conflict in 1973, the international investment community had the advantage of a steady, if irregular, expansion of business and, by today's standards, near static interest rates. In those halcyon days, the gold price was fixed and energy costs were low and stable. The main stimuli to adroit investment management were occasional bankruptcies.

The turbulence of the 1970s has produced the "multi-role" investment adviser. He differs greatly from the stockbroker or banker of previous years. Pressure is constant and competition is intense. The pressure is created by the necessity of analyzing developments in all markets, whether these be foreign exchange, bond, equity, commodity or other markets. The pressure is increased by the need to assess new types of investment such as financial futures, "granny" bonds and the like. Not only have markets become more volatile but structural changes in markets have become more rapid.

Unquestionably, the investment advisers with the most experience in managing international portfolios have been Swiss bankers. They acquired their expertise largely as the result of Switzerland's becoming a haven for money investment sources around the world.

Portfolio Managers

Generally, the Swiss portfolio manager's objective is to produce a higher return for his client than the client could obtain in his own market. Prior to the breakdown of the Brettoo Woods system of fixed exchange rates, Swiss portfolio managers had to diversify their investments in different markets because Swiss interest rates were lower than those in other countries. After exchange rates were allowed to fluctuate widely, the task of the portfolio manager was to identify which currencies had the greatest appreciation potential. This opened up opportunities in the domestic Swiss market but too often other considerations, such as the imposition of negative interest rates, precluded this possibility. Therefore, the Swiss manager had to look continually for opportunities in other markets.

As a result of circumstances peculiar to Switzerland, iovestment advisers in other countries did not gain as much experience in managing a diversified portfolio, with the possible exception of those in Scotland.

It is interesting to note that in the last 10 years, conservative portfolio management policies have

With the rise in volatility has come a rise in pressure.

been the right policies. Those advisers who kept their client's portfolios liquid; who eschewed high interest rates in favor of a sound currency and who stuck to the view that a portfolio should have an element of gold in it, outperformed the more equity-minded and aggressive managers of money.

The problems confronting the portfolio manager in the 1980s will undoubtedly be somewhat different from those of the 1970s. For instance, it is conceivable, but not yet probable, that we are entering a decade of a declining rate of inflation that would favor investment in companies with expanding earnings, as opposed to those with undervalued real assets.

Whatever the case, the investment manager must be more adaptable than his predecessors. He must be prepared to examine opportunities in a larger number of markets. He must make use of different financial techniques and different financial instruments. Finally, he should remain conservative in his approach to investment and not be blinded by national investment prejudices.

Hans Rieppel is managing director of Sarasin-International Securities Ltd. in London.

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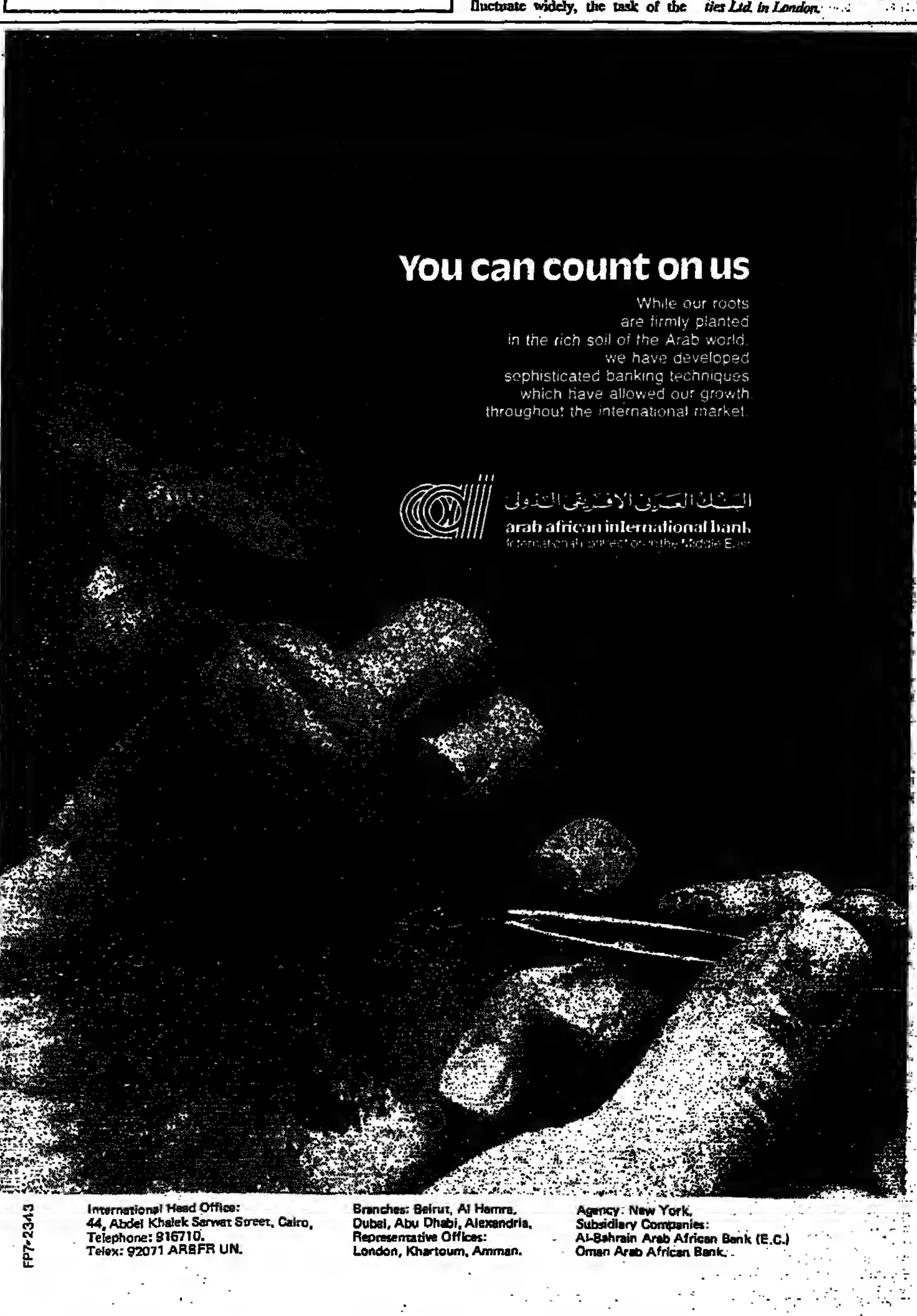


INTERNATIONAL
Herald Tribune
Published with The New York Times and The Washington Post
Page 17 Wednesday, November 25, 1981 **R

The New York Times
Molten steel pours into the continuous slab casting machine at an Inland Steel plant in Indiana.

U.S. Steelmakers Change Course

By Winston Williams
New York Times Service

CHICAGO — A few years ago, when supporters of free trade disagreed with steelmakers on the need for import restrictions, the steelmakers would make a blatant appeal to patriotism and ask, "Don't you think America needs a steel industry?"

But by their recent actions, it seems that steel producers have answered their own question with a "Maybe."

U.S. producers are modernizing many of their facilities, but apparently they finally have accepted with resignation their diminishing importance in the world steel industry.

The steel sector has shown its faith in the Reagan administration's more attractive tax, environmental and regulatory policies by announcing a series of investment projects valued at more than $5.8 billion, a substantial sum by any measure. But with its bold, multi-billion-dollar bid for Marathon Oil, U.S. Steel Corp. has vividly illustrated the sector's ambivalence toward its basic business.

Other steel companies recently also have shown dissatisfaction with their long-term prospects.

Some have turned to other industries. Earlier this month, Kaiser Steel announced it would abandon 2.2 million tons of steelmaking capacity at its Fontana, Calif., plant. National Steel, forgoing expansion in steel, decided instead to acquire two large savings and loan associations. LTV, corporate parent of Jones & Laughlin, made an unsuccessful bid for Grumman. And Armco, long a grand name in steelmaking, has diversified extensively and dropped the word "steel" from its corporate title.

These actions have upset supporters of "re-industrialization," who thought that the breaks in the new tax bill would permit the steel sector to modernize and expand, thus putting an end to more than a quarter century of decline. There exists a feeling of betrayal among many congressmen, government officials and labor leaders who vigorously backed steelmakers' demands for help.

"This confirms my fears about U.S. Steel, which I rank last in the industry in terms of their commitment to steel," Jack Parton, an official of the United Steelworkers union in Chicago, said of the Marathon bid. "It's going to be hard to take them seriously when they ask us for sacrifices." Union leaders are scheduled to open wage talks soon with the steel companies.

Others less involved also see a flight from steel. "With the cost of labor and capital being what it is here, there's no future in putting more money into steel," said David Healy, the steel specialist at the

(Continued on Page 19, Col. 1)

U.S. Consumer Prices Up 0.4% in October

United Press International

WASHINGTON — A drastic reversal in housing prices — greater than any since the 1930s — helped hold the Consumer Price Index to an increase of 0.4 percentage points in October, the Labor Department reported Tuesday.

The increase — one-third as large as the jump in September — means that U.S. price inflation increased in September at an annual rate of 4.4 percent, the lowest since July, 1980. September's annual rate was 14.8 percent.

But an administration economist said the underlying inflation rate is higher, perhaps 8 percent to 9 percent, and the low October figure may be just a one-time reading.

Meanwhile, the Commerce Department reported that new orders received by manufacturers of durable goods fell $6.92 billion, or 8 percent, to a seasonally adjusted $79.35 billion in October. The decline follows a revised drop of 1.2 percent in September. Initially, the department said durable goods orders fell 2.9 percent in September.

The average price of a house fell 0.7 percent in October, the department said, a sharp turnaround from a long history of steady increases. Home financing costs went down 0.1 percent.

"We have a deflation in prices of homes of a magnitude we have not seen since the 1930's," said Michael Sumichrast, chief economist for the housing industry's major trade group, the National Association of Home Builders.

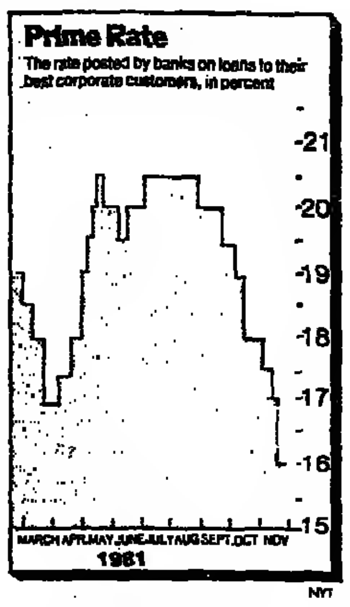
"If I wanted to sell my house I obviously couldn't get as much as a year ago," Mr. Sumichrast said, adding that for potential home-buyers with enough cash to negotiate with, the next year could provide the best deal they'll ever find.

Senior Commerce Department economist Theodore Torda called the October CPI figure deceptively low, saying it was not indicative of the underlying rate of inflation, as measured by the increase in unit labor costs.

"That underlying inflation rate, we think, is still in the range of 8 to 9 percent, so that this latest reading on the consumer price index is probably an aberration on the low side."

The annual rate of consumer inflation was more than 10 percent from July through September after being below the double-digit level from January through June with only one exception, February.

Food prices also moderated in October, rising only 0.2 percent for the month, the lowest rate of increase since June. The deceleration was largely the result of a sharp decline in prices for fresh fruits and vegetables, and smaller increases for meats, poultry, fish and eggs, the Labor Department said.



Chase Takes Lead In Prime Rate Cut

From Agency Dispatches

NEW YORK — Chase Manhattan Bank Tuesday cut its prime lending rate to a 12-month low of 15¾ percent from 16½ percent in reaction to shrinking loan demand and the lower cost of money. Many of the other major U.S. banks lowered their key lending charge a half point to 16 percent.

Citibank, Chemical Bank, Bankers Trust and First National Bank of Chicago were among the large financial institutions that cut their basic charge on corporate loans to the 16-percent level.

Crocker National and Continental Illinois banks had lowered their prime rates to 16 percent last week as loan demand slowed, other short-term rates declined and the recession deepened. Prior to Tuesday, the prime rate ranged from 16 to 16½ percent.

The Chase reduction put the prime at its lowest level since it hit 15½ percent on Nov. 6, 1980, when rates were on their way up to near-record levels.

The prime rate has been on a steady decline since mid-September, when it dropped to 20 percent from a near-record 20½ percent.

The actions by the banks coincided with the Labor Department's report that October consumer prices increased only 0.4 percent, down from the 1.2 percent increase reported in September.

Most money experts said they expected both short- and long-term interest rates to decline in the coming weeks as the recession deepens.

As an illustration of how other interest rates have fallen recently, the Federal Reserve Board reported that the federal funds rate averaged 12.94 percent in the week ended Nov. 11, down from an average of nearly 14 percent in the previous week. Tuesday the fed funds rate ranged between 11¾ percent and 12 percent.

The federal funds rate is the rate banks charge each other on overnight loans of uncommitted reserves. It is a key determinant of banks' cost of funds.

The bond markets responded to the news of the cuts in the prime with a strong showing, traders said, with price gains of as much as 1¾ points.

In the U.S. government securities market, Treasury bills increased in value by from ¾ point to 1¾ points after falling as much as 2¾ points Monday.

Corporate bond traders said prices were up ½ point from Monday' levels.

U.S. Steel Seeks to Lift Credit Line to $5 Billion

From Agency Dispatches

PITTSBURGH — U.S. Steel Corp. said Tuesday it is negotiating with a group of banks to increase its credit lines by roughly $2 billion.

The steel company, which last week agreed to purchase Marathon Oil for about $6.3 billion, already has a credit line of $3 billion.

A spokesman for U.S. Steel would not discuss the reasons for the attempt to increase its line of credit, but industry analysts believe it could be used to fight a possible counter bid from Mobil Corp., which has offered $85 a share for 51 percent of Marathon. U.S. Steel has offered $125 a share for a majority interest.

From Washington, meanwhile, the New York Times reported that the Department of Energy has identified 11 states in which there were "potentially significant overlap" in the operations of Marathon and Mobil.

According to an unpublished

(Continued on Page 19, Col. 6)

Court Blocks U.S. Steel In Bid for Marathon

From Agency Dispatches

COLUMBUS, Ohio — A U.S. district judge Tuesday issued a temporary restraining order preventing U.S. Steel from going ahead with its $125 offer for 51 percent of Marathon Oil.

The order also prevents the transfer of Marathon's principal oil interests in the United States. The court extended the proration deadline on the U.S. Steel offer to Dec. 8 from Nov. 28. The action came after attorneys for Mobil, which is also bidding for Marathon, filed an action challenging the Marathon and U.S. Steel merger agreement.

Rate, Inflation Fall Spurs NYSE

From Agency Dispatches

NEW YORK — New York stock prices closed sharply higher Tuesday, boosted by declining interest rates, signs inflation is abating and a rally in the bond market.

The Dow Jones industrial average showed only slight gains most of the day but then took off about mid-afternoon to close up 18.45 points at 870.24. Advances led declines by a two-to-one margin and volume soared to some 59 million shares from 45.25 million Monday.

Michael Metz of Oppenheimer & Co. said the rally was particularly encouraging because the leadership came from blue-chip stocks rather than the speculative takeover issues that have dominated trading the last few days.

The market's rally started on news consumer prices rose only 0.4 percent last month, the smallest monthly rise since July, 1980.

More support came from prime rate cuts, to 16 percent by most major banks and 15¾ percent by Chase Manhattan. "The prime rate came down much faster and deeper than we had thought," Robert Stovall of Dean Witter Reynolds said.

The announcement that durable goods orders for October plummeted 8 percent and mid-November car sales were off sharply also gave the market a boost because the figures indicate the recession may be near its bottom, analysts said.

"The worse the news is about the economy the sooner it is going to get better," Mr. Metz said.

He noted that if interest rates continue to drop the economy could turn around sooner than expected.

Analysts explained that the market tends to discount events several months in advance and so much of the recession was taken into account this summer, when the Dow Jones average slid some 200 points. Now, investors are starting to look ahead to the recovery.

In a report on U.S. crude oil imports, the American Petroleum Institute said imports have fallen to their lowest level since 1975.

It said oil imports averaged 3.9 million barrels a day during October, the first time they have been below 4 million since June, 1975.

Crude imports reached their peak in July, 1977, when they averaged 7.1 million barrels a day.

On the NYSE trading floor, Marathon Oil, which has agreed to U.S. Steel's $6.4 billion merger proposal, was active after a block of 123,000 shares at 103¾. U.S. Steel also was active and higher.

Marathon stock lost 2¾ points Monday after Mobil, which had offered $5.1 billion for the Findlay, Ohio, company, said only 23 million shares of the 30 million it sought had been tendered. Marathon has rejected Mobil's bid.

Goodyear Tire & Rubber made the active list with a block of 100,000 shares at 18⅞.

On the Amex, Houston Oil Trust was active after a block of 500,000 shares crossed at 19⅛.

BUSINESS NEWS BRIEFS

Dome to Sell 3d Interest in Hudson's Bay

Reuters

CALGARY — Dome Petroleum said Tuesday that Transcanada Pipelines may purchase a 12½ percent interest in Hudson's Bay Oil & Gas' Canadian oil and gas properties.

Dome said the purchase would be similar to that of Dome Canada and Maligne Resources, each of which have agreed to purchase a 12½ percent interest in Hudson's Bay's Canadian oil and gas properties for a total of 890 million Canadian dollars ($750 million).

Dome Petroleum said the proceeds of these and other potential dispositions would aggregate about 1.4 billion dollars.

Hong Kong Firm Raises Bid for Host

Los Angeles Times Service

SANTA MONICA, Calif. — A Hong Kong-based retailer has emerged as the apparent victor in the bidding war for Santa Monica-based Host International by topping Marriott's $139.2 million offer by $1.2 million.

Host and Hong-Kong based DFS Group Monday signed a new merger agreement based on a bid of $140.4 million, or $29.25 for each of Host's 4.8 million outstanding shares.

The offer was larger than the $116.4 million DFS bid that Host had accepted in October, and the $139.2 million Marriott Corp. bid on Friday. Marriott said Tuesday it was disappointed that the Host board did not accept its offer and it is evaluating other possible alternatives with respect to Host.

NCC to Submit New Bid for Simplicity

Reuters

NEW YORK — NCC Energy of Britain said Tuesday it planned to make a new offer for a business combination with Simplicity Pattern within 90 days.

The company said in the meantime it may increase its holdings in Simplicity. A previous NCC and Simplicity combination was terminated Nov. 5 after Bayswater Realty and Capital made a tender offer for Simplicity. Bayswater Monday announced withdrawal of its offer.

On Monday, Bond Corp. Holdings said it agreed to buy the 13.3 percent stake in Simplicity's shares that had been held by a Bayswater affiliate. Bond said it would support NCC.

Veba Blames Recession for Drop in Profit

Reuters

DUSSELDORF — Veba, reporting a 19.5 percent decrease in net profit for the first nine months of the year, said Tuesday that recession continued to eat into profit in the third quarter of 1981, although raw material and energy costs stopped rising at the end of the quarter.

A shareholders letter said the petroleum sector continued to show a loss in the third quarter, despite improved business, but losses were partly offset by profits on stocks.

The company said the chemicals division also was depressed, partly on seasonal factors, while electricity generating yielded a slightly higher profit.

Allianz to Join Telecommunications Venture

Reuters

FRANKFURT — Allianz Versicherungs intends to take a 9-percent interest in the planned telecommunications joint venture of AEG-Telefunken, Robert Bosch and Mannesmann, a spokesman for Allianz in Munich said Tuesday.

The spokesman said the holding will be considered a purely financial investment, but he said that he could not give details of the sum involved.

The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each, he said.

OPEC Reveals Oil-Price Plan That Will Respond to Market

By Bhushan Bahree
AP-Dow Jones

VIENNA — The Organization of Petroleum Exporting Countries is developing a formula that would allow the price of its oil to go both up and down in real terms in response to market forces and other factors.

Saudi Arabian Oil Minister Sheik Ahmed Zaki Yamani, who disclosed that a "flexible" pricing formula was being developed, was reluctant to give details. But OPEC president and Indonesian Oil Minister Subroto said such a formula could be put in place next year, or before the current price freeze by OPEC expires at the end of 1982.

Subroto said that the price formula was being developed by the long-term strategy committee, which has been meeting under the chairmanship of Sheikh Yamani.

The Saudi minister confirmed that the previously proposed price formula, which was supposed to have a ratchet effect in moving prices only upwards, was abandoned because of recent experiences. The world oil market continues to be soft after being glutted for most of the year.

The previous formula had provided for periodic adjustment of oil prices automatically on the basis of exchange-rate changes, the rate of inflation and economic growth rates. The first two factors were supposed to preserve the real price of oil, and the last was to provide the ratchet effect, raising prices at a pace linked with growth.

On Tuesday, Sheikh Yamani said: "The [previous] price formula is no more the formula that should be applied in the future. We think we have to be flexible. That means a formula that contains several factors." He added that these factors included a consideration of market forces. "I believe in market forces and we can't ignore them," he asserted.

The reasoning that underlies this radical change in OPEC thinking was outlined Tuesday by OPEC deputy secretary general Fadhil al-Chalabi. In presenting various pricing options open to OPEC, he said one was "hydrocarbon prices at equilibrium level." In effect, he explained, OPEC would plan its share of the world oil market and adopt a pricing policy to support it. This would be instead of OPEC allowing its share to be determined by market forces in reaction to price changes.

Delors Says ECU, U.S. Aid Are Key To Calm Markets

AP-Dow Jones

PARIS — French Finance Minister Jacques Delors called Tuesday for an international role for the European Currency Unit and monetary cooperation between the United States and Europe in an attempt to calm foreign exchange markets.

The ECU should be used for international transactions and progressively become a reserve asset alongside the dollar, especially for surplus countries, he told a meeting of international exchange dealers and bankers.

The need for some "limited" cooperation between the United States and Europe designed to prevent erratic currency fluctuations was gaining ground since he launched the idea six months ago, Mr. Delors said.

He said members of the European Monetary System should make proposals to the United States aimed at regulating foreign exchange markets. "Such a joint announcement would in itself calm down markets," Mr. Delors said.

Addressing a conference on the management of foreign exchange risks sponsored by the International Herald Tribune and Forex Research, Mr. Delors said France was neither opposed to a greater role for special drawing rights, nor against a new allocation of SDRs provided it was distributed among Third World countries.

Mr. Delors said that the economic policy of the new French Socialist administration was midway between excessive government control and a completely free market.

Debt to Governments By Uganda Rescheduled

The Associated Press

PARIS — Uganda's major creditor nations have agreed to reschedule the country's external debt resulting from government loans and guaranteed credits, the French Finance Ministry said Tuesday.

The plan will apply to amounts due on debt of over one-year maturities payable between July 1, 1981 and June 30, 1982, together with arrears as of June 30 this year on debt incurred prior to that date, according to the announcement. Repayment will be made by the Government of Uganda over 10 years, including a grace period of five years for debts rescheduled. Payments of arrears will be made over eight years including a grace period of four years.

CURRENCY RATES

Interbank exchange rates for Nov. 24, 1981, excluding bank service charges.

	$	£	D.M.	F.F.	ITL.	Gldr.	B.F.	S.F.	D.K.
Amsterdam	2.4465	4.673	109.48*	43.315*	0.2047	—	6.516*	136.78*	33.92*
Brussels (a)	37.46	71.68	16.7875	6.6525	3.1365*	15.3425	—	21.00	5.226
Frankfurt	2.236	4.267	—	39.44*	1.866 x	91.33*	5.953*	125.00*	31.13*
London (b)	1.9198	—	4.2778	10.7908	2,295.65	4.6825	71.915	3.422	13.735
Milan	1,196.55	2,296.75	535.70	212.05	—	489.80	31.083	670.00	166.81
New York	—	1.9215	0.448	0.1771	0.0868*	0.4088	0.0266	0.5599	0.1394
Paris	5.6415	10.78	252.52*	—	4.7155 x	230.65*	15.019*	315.55*	78.67*
Zurich	1.7872	3.4168	80.00*	31.735*	0.1494	73.075*	4.7603*	—	24.91*
ECU	1.0949	0.5731	2.447	6.1761	1,309.45	2.6808	41.101	1.9578	7.8411

Dollar Values

$ Equiv.	Currency	Per U.S.$	$ Equiv.	Currency	Per U.S.$	$ Equiv.	Currency	Per U.S.$
1.147	Australian $	0.8718	0.0672	Israeli shekel	14.825	0.4861	Singapore $	2.057
0.0637	Austrian schilling	15.70	0.0046	Japanese yen	217.275	1.0352	S. African rand	0.966
0.0241	Belgian fin. franc	41.55	3.5638	Kuwaiti dinar	0.2806	0.0014	S. Korean won	690.50
0.8443	Canadian $	1.1816	0.4447	Malay. ringgit	2.2485	0.0105	Spanish peseta	95.475
0.1393	Danish krone	7.1775	0.1738	Norw. krone	5.755	0.1821	Swedish krona	5.4915
0.2304	Finnish mark	4.341	0.1175	Phil. peso	8.5106	0.0265	Taiwan $	37.79
0.0177	Greek drachma	56.40	0.0155	Port. escudo	64.361	0.0435	Thai baht	22.975
0.1771	Hong Kong $	5.6475	0.2924	Saudi riyal	3.42	0.2723	U.A.E. dirham	3.673
1.589	Irish £	0.6293	1.1687	S.D.R.	0.8557			

£ Sterling: 1.209 Irish £.

(a) Commercial franc. (b) Amounts needed to buy one pound. (*) Units of 100. (x) Units of 1,000.

NYSE Nationwide Trading Closing Prices Nov. 24

Tables include the nationwide prices up to the closing on Wall Street.

12 Month High	Low	Stock	Div.	In	$ Yld.	P/E	Sls. 100s.	High	Low	Close Quot.	Ch'ge Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

(Continued on Page 20)

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Study Sees Chip Stock Bargains

By Robert Metz
New York Times Service

NEW YORK — The shares of semiconductor companies have dropped to their lowest levels in years and could be selling at bargain prices.

That, at least, is the theme of a major new report from Hambrecht & Quist, a San Francisco investment banking concern widely known for its sponsorship of high-technology companies.

The companies in question — Advanced Micro Devices, Intel, Motorola, National Semiconductor and Texas Instruments — are leading manufacturers of integrated circuits, the bedrock upon which the emerging computer era is based.

Sliding prices of semiconductors have helped increase the rate of computer installation in offices and factories. More recently, the integrated circuit has brought a boom in home computers.

But semiconductor prices have fallen too rapidly of late to support the high profits investors in semiconductor companies have come to expect. Hambrecht & Quest acknowledges this and is itself predicting that the earnings of the five companies will slip an average of 67 percent in 1981. That's an even greater setback for the industry than in the recession year of 1975, when earnings were down 62 percent.

This time shares have reacted so severely that Hambrecht & Quist believes they "represent very attractive investment opportunities."

Not everyone agrees. Thomas Kurlak of Merrill Lynch put out a cautionary report on semiconductor shares last week. In a telephone interview, he commented: "Our analysis indicates that there is a correlation between semiconductor company order bookings and share price. We are advising clients to defer new buying until the low in bookings occurs, probably in February."

John J. Lazlo Jr., the Hambrecht analyst who wrote the report, argues that share price performance over the next few months will be "no worse" than that of the market generally. "Looking out 12 months we anticipate superior relative and absolute price performance," he added.

Mr. Lazlo is recommending the shares of all five companies. Discussing the companies, he said that 40 percent to 50 percent of Advanced Micro Device's revenues and a larger portion of its earnings are derived from proprietary products where it experiences little effective competition.

Mr. Lazlo expects the company to earn $2.50 to $3 a share in the 1983 calendar year, up from an estimated $1 a share in 1982 and about 55 cents a share in 1981. Its peak calendar year result was $1.66 a share in 1980.

Intel, the dominant factor in microprocessors, "is rapidly becoming a systems company, integrating its components in software into higher value-added products for its customers," he said.

Mr. Lazlo thinks this strategy will give Intel better control of its markets and help the company achieve profit margins approaching former levels. The company could earn $3 a share in 1983, up from $1.50 a share in 1982 and 75 cents a share in 1982. Intel's peak earnings were $2.21 a share in 1980.

Motorola, he believes, has emerged as one of the strongest factors in the industry. Motorola also commands a dominant position in the land mobile radio market. In 1983, Motorola could earn $10 a share, up from $6 a share in 1982 and $5.50 a share in 1981, he said. Motorola's peak was $5.96 a share in 1980, he added.

National Semiconductor is a broad-line supplier of semiconductors and its "technology base is underrated by the investment community generally," Mr. Lazlo said. "We expect a strong earnings recovery during the general industry rebound. We're looking for $4 a share in calendar 1983, $1 a share in calendar 1982 and $1.10 a share in the current calendar year."

Texas Instruments, he said, is regrouping and preparing for a market onslaught in the 1980-86 period. Texas Instruments is entering such areas of high potential growth as speech synthesis and gate arrays, the gate arrays to be used to replace standard logic circuits with savings in both cost and development time. Texas Instruments may earn $12.50 a share in 1983, he said. He expects $6.50 a share in 1982 and $4.15 a share in 1981.

Penn Central Withdraws Offer To Acquire Colt

The Associated Press

NEW YORK — Penn Central Tuesday called off its proposed $1.4-billion acquisition of Colt Industries at the request of Colt, both companies announced.

While Colt shareholders had overwhelmingly approved the merger into a subsidiary of Penn Central last month, a dissident Penn Central shareholders group, which included members of the Hunt family of Texas, opposed the deal.

The announcement of the cancellation of the merger came as independent election judges were in the process of reviewing results of Penn Central shareholder balloting on the acquisition.

In a preliminary count, 10.2 million votes were cast against the merger, and 10.1 million votes were cast in favor of the takeover. But Penn Central said 396,630 votes were under review.

Dissident shareholders claimed Penn Central was paying too much for Colt. The Hunt group said Penn Central was also jeopardizing part of its more than $2 billion in tax credits in the deal.

Richard Dicker, chairman of Penn Central, had maintained that the company would come out hundreds of millions of dollars ahead on the deal if it went through.

Asked why the transaction was called off, Mr. Dicker said Colt had a right to terminate the merger if the deal could not be completed by Dec. 31 and that because of the vote recount, that deadline was impossible to meet.

Oil Glut, Commodity Slump Hurts Indonesia

By Peter Griffiths
Reuters

JAKARTA — Indonesia, faced by stagnant prices for oil, coffee, rubber and timber, has announced it will probably face a balance-of-payments deficit this year.

The dip in the country's economy — the first balance-of-payments deficit in three years — has put a brake on President Suharto's ambitious budget last January that included a 32-percent increase in overall spending.

The budget called for expenditures of $22.24 billion, predicted oil revenues of $13.76 billion and reflected a prediction of vigorous growth in the oon-oil sector.

Since then government planners, who anticipated a surplus in its balance of payments of $2.8 billion, have had to readjust their plans because of stagnating oil sales and a slump in commodity prices.

Foreign experts predict that even with some deficit financing from exchange reserves next January's pre-election announcement of the 1982-83 draft budget could provide for growth of only about 12 to 15 percent — meaning a slowdown in massive development outlay and a tight rein on capital spending.

The director general of foreign monetary affairs, Soegito, told parliament last week the balance-of-payments deficit at the end of the 1981-82 fiscal year next March might reach $796 million.

Gold and currency reserves still stood at $7.2 billion, he said, but according to foreign experts these huge oil-produced savings will decline quite steeply over the next three years.

Some recent projections say Indonesia's reserves ($11 billion if net foreign assets of the five state banks are added) could be cut in half by 1984.

The growth in home fuel usage, helped by a $2.3-billion government subsidy, keeps the cost of regular gasoline at 58 cents a gallon (about 13 cents a liter) and means less oil for export.

Finance Minister Ali Wardhana told the parliamentary budget commission last weekend that "the easy and comfortable years when Indonesia was floating on oil" are over.

He told the commission, which is studying plans for the election year budget, the nation would have to tighten its belt in the next fiscal year and government bodies should submit expenditure estimates with increases oot exceeding five percent in real terms, or about 14 percent taking into account inflation this year.

Exports Outlook

Subsidies, which this year cost a total of $3.3 billion for all items including fuel and fertilizer, would be curtailed, the minister hinted, since they constituted a heavy financial burden exceeding the government's total wages and pensions bill of $2.7 billion.

Government estimates show a net drop in crude exports by value for this fiscal year to almost 10 percent below budget.

Moreover officials believe crude prices will oot rise in 1982 from their $34-a-barrel level and may even be forced down slightly.

Further, the contribution of liquified natural gas is not expected to rise from the level of 8 percent of the value of total exports until late 1984 when the completion of the first of a series of big LNG trains could mean a takeoff in gas earnings.

Even more serious than the oil price stagnation has been the unpredicted slump in non-energy exports, which will earn about 30 percent less this year than was projected in the January budget.

Coffee prices have fallen by half since 1980 and Indonesia's export quota was recently cut 28 percent by the International Coffee Organisation.

U.S. Steel in Talks to Raise Line of Credit to $5 Billion

(Continued from Page 17)

statistical study of Marathon and Mobil, the department's office of competition found reason to scrutinize the companies' "direct" overlap in Illinois, Indiana, Michigan, Ohio and Wisconsin. Their direct networks involve retail gasoline sales through compaoy outlets, lessee dealers and so-called independent dealers who may trade in any brand.

Indirect overlaps, sales made to wholesalers such as jobbers, occur in Florida, Georgia, North Carolina, South Carolina, Tennessee and Virginia, the department says.

The study drew oo conclusions about its statistical findings, which have recently been transmitted to the Federal Trade Commission. The Energy Department, it is understood, has not otherwise given any opinion about the antitrust consequences of a Marathon-Mobil link.

The commissioo is the federal agency that will decide if antitrust laws would be violated by a Mobil-Marathon merger.

Other Interest

Although U.S. Steel's bid for Marathon is substantially higher than Mobil's, there is intense interest in the regulators' views because of the possibility that Mobil might raise its bid. In addition, other oil industry mergers are thought to be under consideration.

The Energy Department has no antitrust authority but it is required by law "to foster and assure competition among parties engaged in the supply of energy and fuels."

The department's study found, among other things, that a Marathon-Mobil combination would be the biggest in the country in gasoline sales, with 8 percent of the market. It would rank second in refining capacity (8 percent), third in refinery runs (8.5 percent) and fifth in crude production (4.8 percent).

In natural gas production, Mobil now has 3.9 percent and Marathoo nine-tenths of 1 percent, a combined market share of 4.8 percent.

However, market shares are only a rough measure of the likelihood of antitrust challenge, specialists say. Analysis must be made of regional as well as national impact and consideration must also be given to trends in concentration and the ease with which oew entrants might move into a market.

European Gold Markets

Nov. 24, 1981

	A.M.	P.M.	N.C.
London	398.00	399.25	+2.50
Zurich	397.50	399.50	+5.00
Paris (12.5 kilo)	406.97	407.96	+2.78
Luxembourg	397.25		+0.85

Official fixings for London, Paris and Luxembourg, opening and closing prices for Zurich. U.S. dollars per ounce.

U.S. Steelmakers See Diversity as Shelter in New World

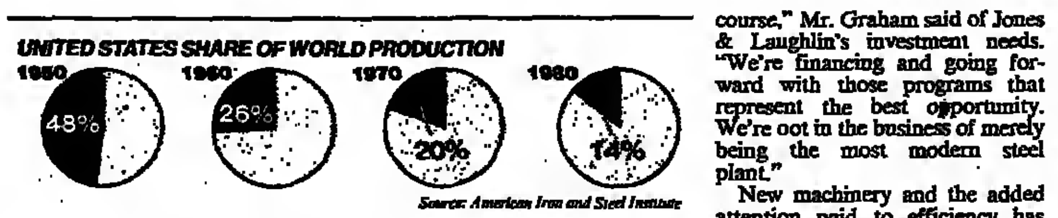
(Continued from Page 17)

brokerage house of Drexel, Burnham, Lambert. "I don't see the economics of the steel business changing. This partial liquidation is going to continue, bit by bit."

Retrenchment in the steel industry is nothing new. The steel plants in the United States were the only ones to come ont of World War II unscathed. In 1947 mills in the United States produced 57 percent of the world's steel. As the metals industries in Japan and Europe were rebuilt, that percentage inevitably declined. And a bitter labor dispute and strike in 1959 opened the door for foreign imports.

Flood of Imports

Imports, first from Western Europe and Japan in the 1960s, became a fixture of the U.S. market, rising to flood levels during strikes and recessions. In the 1970s, developing countries such as South Korea and Singapore, building their own industrial base, added steel mills. Now countries in Africa and the Middle East are building their own steelmaking capacity.



Even though steelmakers in the United States long ago became accustomed to the new competition, they now seem to have also accepted the fact that there will be no return to their former grandeur.

"We have no plans for a major expansion," said Thomas Graham, chairman of Jones & Laughlin. "What we need is an international pause in adding steelmaking capacity. There's too much capacity in the free world."

Appeals to patriotism have declined as dozens of plants have closed, thousands of workers have been laid off and diversification has increased.

The capital projects currently under way are all aimed at making existing plants more efficient.

Continuous casters, which save labor and energy by eliminating an intermediate stage of production, are high on the priority lists. So are are coke ovens, which produce relatively cheap energy. And some companies are adding capacity to make semifinished steel into pipe used in oil drilling, one of the few strong markets.

But the modernization projects announced thus far will not be enough to make U.S. steelmakers fully competitive. At least 15 percent of capacity is in dirty, ancient open-hearth furnaces, and just 20 percent flows through the efficient continuous casters. Still, the need for more modernization has not been a strong deterrent to diversification.

"We have a Christmas list, of course," Mr. Graham said of Jones & Laughlin's investment needs. "We're financing and going forward with those programs that represent the best opportunity. We're oot in the business of merely being the most modern steel plant."

New machinery and the added attention paid to efficiency has paid off this year, bowever. Profits rose sharply in the third quarter, increasing almost fivefold at U.S. Steel, for example, to $536.9 million. In the first nine months, according to the American Iron and Steel Institute, steel profits overall increased about 143 percent, to $2.43 billion.

But steelmakers remain dissatisfied, saying return on equity still lags far behind other sectors. For example last year, when the industry earned $1.6 billion, its return on equity was 9 percent, compared to about 15 percent for all manufacturers. And the outlook for the rest of this year and the first half of 1982 is very poor, the steel companies say.

These uncertainties, despite the favorable effects of the tax law changes, has made steel companies reluctant to commit capital to massive steel projects. "We've got to have a second tax bill that reduces the corporate tax rate," David Roderick, the chairman of U.S. Steel, said shortly after the bill was passed last summer.

COMPANY REPORTS

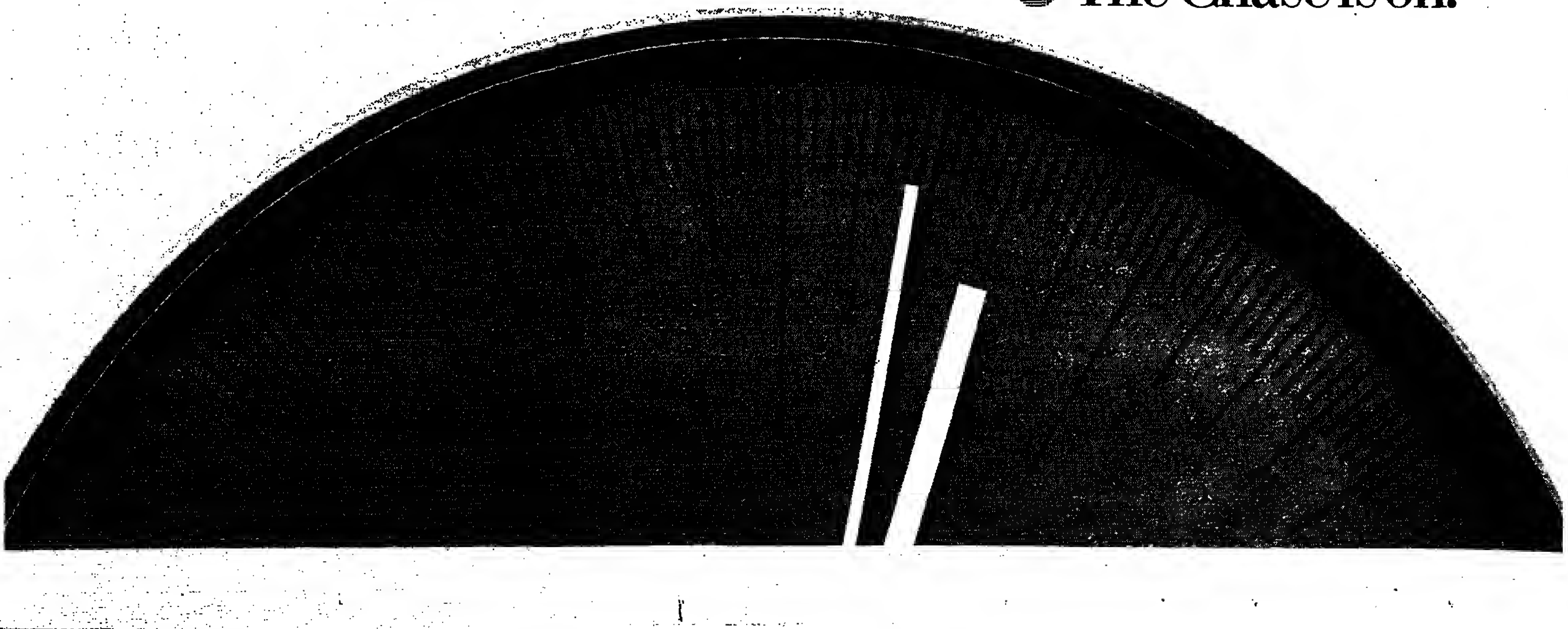
Revenue and profits, in millions, are in local currencies unless otherwise indicated.

United States

Supermarkets General		
3rd Quar.	1981	1980
Revenue	752.4	653.0
Profits	6.23	7.03
Per Share	0.75	0.84
9 months	1981	1980
Revenue	2,200.	1,910.
Profits	15.81	16.74
Per Share	1.89	2.02

West Germany

Veba		
9 months	1981	1980
Revenue	34,900.	30,400.
Profits	214.0	266.0



NYSE Nationwide Trading Closing Prices Nov. 24

(Continued from Page 18)

[illegible]

12½	8½	ToolRol	.40b	3.2 11	103	12⅛	11¼	12⅛+ 1⅛	
15¼	6⅝	ToroCo			103	7⅝	7⅝	7⅝	
43⅞	15	Tosco			591	20¼	19⅝	19¾— ⅝	
21⅞	13⅛	Towle	n .44	2.7 7	4	16⅛	16⅛	16⅛	
33¼	15¾	ToyRU	s	21	167	21⅜	30⅞	31⅛— ⅛	
33⅜	19½	Tracor	s .22	1.3 13	171	24¾	24⅛	24⅜+ ¼	
27¾	18⅞	Trane	1.20	8.5 7	168	21¾	21	21⅜+ ⅛	
28⅜	14⅝	TW Cp		10	722	15¼	14⅞	15⅛	
12¼	4¼	TW	wt		133	5⅝	5¼	5½— ⅛	
18⅜	13	TWC	pf 2	15.	5	14¼	13¾	13¾— ½	
13	10⅝	TWC	pf 1.90	16.	24	11⅜	11⅛	11¾+ ⅛	
32	20	TWC	pf 2.66	12.	11	22⅝	22⅜	22⅜+ ⅛	
26¼	17¼	Transm	1.40	5.9 7	219	23⅞	23⅝	23¾+ ¼	
16¾	14	TranInc	2.12	13.	26	15	15⅝	15⅝	
62⅞	27¼	Transco	1.00	3.6 9	67	44	43¾	43⅞+ ⅛	
71	43½	Trnsc	pf3.87	7.6	17	51	50¾	50¾	

22½	18⅝	UIPL	pf2.36	14.		
18¾	15¼	UIPL	pf2.36	14.		
16⅜	12¼	UIPL	pf2.04	14.		
		— V—V—V —				
43⅛	26	VF Co	2.40	5.9 7	[illegible]	
43⅞	28¼	Valero	.32	1.2 7	[illegible]	
16	8⅞	Valeyin	.40	3.9 6	[illegible]	
23⅝	14⅛	VanDrn	1.12	6.7 7	[illegible]	
29⅞	17¼	Varco	n .08	.4 11	[illegible]	
36½	23½	Varian	.52	1.7	[illegible]	
15½	6⅞	Varo	.40	5.3 5	[illegible]	
33¾	13¼	Veeco	.20	1.3 14	[illegible]	
5⅜	2⅛	Vendo			[illegible]	
10⅞	8⅝	VestSe	1.28a	14.	[illegible]	
33⅞	32	Viacm	s .25	1.0 16	[illegible]	
41¾	29	Vicom	pf2.10	6.2	[illegible]	
16⅛	9½	VaEPw	1.00	12. 7	[illegible]	

Eurocurrency Interest Rates

Nov. 24, 1981

	Dollar	D-Mark	Swiss Franc	Sterling	French Franc	ECU	SDR
1 M.	12 ⅛ - 13 ¼	10 9/16 - 10 11/16	9 ¼ - 9 ⅜	15 ⅛ - 15 ¼	15 ⅜ - 15 ⅝	13 ½ - 14	11 ½ - 12
5 M.	13 ¼ - 12 ⅛	10 ⅜ - 10 ⅝	9 ¾ - 9 ⅛	15 - 15 ⅛	16 ⅜ - 16 ½	14 - 14 ½	12 - 12 ⅜
3 M.	12 ⅞ - 13 ⅝	10 9/16 - 10 ⅝	9 ¾ - 9 ⅞	14 13/16 - 14 15/16	16 ½ - 16 ¾	14 - 14 ½	12 - 12 ⅜
6 M.	13 ⅝ - 12 13/16	10 ⅛ - 10 ¼	9 ¾ - 9 ⅛	14 ⅜ - 14 ⅜	17 ⅝ - 17 ⅝	14 - 14 ½	12 ¼ - 13 ⅜
1 Y.	13 ⅛ - 13 ¼	9 ⅞ - 10	8 ¾ - 9	14 ⅛ - 14 ⅜	17 ¾ - 18 ¼	13 ½ - 14	12 ⅛ - 12 ⅛

Selected Over-the-Counter

Closing Prices, Nov. 24, 1981

NEW YORK (AP)—The following list is a selected National Securities Dealers Assn. over the counter Bank, Insurance & Industrial stocks.

[illegible]											
Chubb	51⅞ 52	Hoover	9½ 9⅝	OtterTP	18⅝ 19						
Cinfica	6 6½	HarlzRs	3⅛ 3¾	PCAInt	5½ 5⅝	WshEnr	13⅛ 13⅜				
CitzSoGa	8⅞ 8⅞	HyattInt	24⅛ 24½	PabstB	13¼ 13½	Weldtrn	4 4⅜				
CitzUtA	36⅛ 36⅞	IMSInt	23½ 23¾	PcGaR	20⅞ 21½	WDeep	30¾ 21				
CitzUtB	31¾ 32½	Intraind	7¼ 7¾	PauleyP	15¼ 15½	WHold	46⅞ 47½				
ClarkJL	25½ 28¼	Intel	24 24½	PeerMf	12 13	WmarC	22⅞ 22½				
ClowCp	5⅜ 5⅞	IntrcEnr	6⅜ 7	PennEnt	12½ 12¾	WiserO	85½ 88				
ColrTle	10¼ 10⅝	IntmtGs	11 11⅜	Pentair	19⅝ 19⅞	WolvAlu	6⅛ 6⅜				
ColoGas	9-32 7-16	InBkWsh	10½ 10⅝	PeopExp	9¼ 9½	Womet	8⅝ 9				
ComCIH	51⅜ 52¼	IwaSoUt	22½ 22⅞	Petrit s	30½ 31	WoodLot	31⅜ 32½				
CmlShr	13 14⅛	Jomsby	15¾ 15½	Pettibon	15¾ 16	WrightW	6⅝ 7				
CmwTel	15 16	Jerico s	19⅛ 19½	PhilaNat	31¼ 21½	ZionUt s	25½ 25⅝				
ConPap	27¼ 27¾	JiffyFd	15-16 1¼	PierceSS	10 10⅝						

n.a.- Not applicable.

U.S. COMMODITY PRICES

Chicago Futures

Nov. 24, 1981

WHEAT, CORN, SOYBEANS, SOYBEAN MEAL, SOYBEAN OIL, OATS, CATTLE, FEEDER CATTLE, HOGS, PORK BELLIES, FRESH BROILERS: [illegible]

London Metals Market

(Figures in sterling per metric ton) (Silver in pence per troy ounce)

Nov. 24, 1981

[illegible]

London Commodities

(Prices in sterling per metric ton) (Gasoil in U.S. dollars per metric ton)

Nov. 24, 1981

SUGAR, COCOA, COFFEE, GASOIL: [illegible]

Paris Commodities

(Figures in French francs per metric ton)

Nov. 24, 1981

SUGAR, COCOA: [illegible]

International Monetary Market

BRITISH POUND, CANADIAN DOLLAR, FRENCH FRANC, GERMAN MARK, JAPANESE YEN, SWISS FRANC: [illegible]

Cash Prices

Nov. 24, 1981

[illegible]

Commodity Indexes

Nov. 24, 1981

[illegible]

Dividends

Nov. 24, 1981

[illegible]

Market Summary

NYSE Most Actives

Nov. 24, 1981

[illegible]

Dow Jones Averages

[illegible]

NYSE Index

	High	Low	Close	N.C.
Composite	—	—	71.85	+0.94
Industrials	—	—	51.29	+1.20
Transp.	—	—	67.77	+0.93
Utilities	—	—	40.94	+0.25
Finance	—	—	74.48	+0.47

Odd-Lot Trading in N.Y.

	Buy	Sales	*Short
Nov. 23	129,926	314,819	1,403
Nov. 20	129,249	288,272	1,107
Nov. 19	129,424	273,730	1,427
Nov. 18	116,635	274,335	881
Nov. 17	125,935	302,158	1,789

*These totals are included in the sales figures.

American Most Actives

	Sales	Close	Chg.
HouOilTr	771,200	19⅝	+ ⅛
DomePtrl s	412,000	12⅜	+ ⅜
NumacOil s	220,700	20⅝	—1
TIIInd s	105,000	17½	—1⅛
WangB	84,400	30⅝	+ 1⅛
TubosMex s	66,000	3	
RangerOil	58,400	5⅛	
IntegEne n	56,100	3⅝	+ ⅛
Metpath s	54,500	20⅝	— ⅛
ImperOilA s	48,300	22½	+ ¼

	Today AMEX Close	Prev. Nationw Close
Volume (in millions)	5.24	4.49
Advanced	313	263
Volume Up (millions)	2.87	1.32
Declined	262	331
Volume Down (millions)	1.48	2.16
Unchanged	220	213
Total Issues	794	807
New highs	8	7
New lows	14	19

AMEX Index

High	Low	Close	Chg.
321.41	317.81	321.34	+3.34

New York Futures

Nov. 24, 1981

LUMBER, PLYWOOD, U.S. T. BILLS, GNMA, US TREASURY BONDS, MAINE POTATOES, COFFEE C, SUGAR-WORLD 11, COCOA, ORANGE JUICE, COTTON 2, COPPER, HEATING OIL, SILVER, PLATINUM, GOLD: [illegible]

Floating Rate Notes

Closing prices, Nov. 24, 1981

Banks

[illegible]

Non Banks

[illegible]

Prices supplied by Credit Suisse-First Boston Ltd., London.

French Prices Up 1.2%

Reuters

PARIS — French retail prices rose 1.2 percent in October after an increase in September of 1.1 percent, the National Statistics Institute said Tuesday.

Tuesday's New Highs and Lows

NEW HIGHS—22

AetnaLife	Minn PwLt	ProctGaml
BaldorElec	NabiscoBrd	StPaul Sec
BrockHill n	NewEng El	Shell 1.39
FtHowPap s	NorthTel g	UnitIllum
IncCon Cum	NortSim pf	Univar Cp
IndMs PwLt	OccIP 14.62pf	UtahPL
KanPwLt	Oranseco	WellCat3v
MEI Corp		

NEW LOWS—22

BeatP 3.38pf	Honeywell	Opelika
CollinFng	Ideal Basic	PhEl 3.80pf
Delta AirL	LeaswyTrn	PeerR Cm
DeltaAirl wt	LowesCos s	Scot LPd
DuqLt 2.10pfG	Mark Ct 1.20pf	SouUnCo
Gamb 1.60pf	MirroCorp	WickesCos
GnDyn 4.25pf	MyersLB	Zenith R
Gulf Resrc		

WestLB Considers Sale Of Part of Preussag

Reuters

FRANKFURT — Westdeutsche Landesbank Girozentrale is negotiating with two other banks about participation in a new holding company to take over WestLB's 30 percent shareholding in Preussag a WestLB spokesman said Tuesday.

WestLB would transfer its stake in Preussag to the holding company and then sell an interest in the holding company to the two other banks, Hessische Landesbank Girozentrale and Deutsche Girozentrale-Deutsche Kommunalbank, he said.

AMEX Nationwide Trading Closing Prices Nov. 24

Tables include the nationwide prices up to the closing on Wall Street.

[illegible]

Amsterdam

[illegible]

Brussels

[illegible]

Frankfurt

[illegible]

Hong Kong

[illegible]

London

[illegible]

Other Stock Markets

Nov. 24, 1981

(Closing prices in local currencies)

[illegible]

Milan

[illegible]

Paris

[illegible]

Singapore

[illegible]

Sydney

[illegible]

Tokyo

[illegible]

Zurich

[illegible]

Quotations in Canadian funds.
All quotes cents unless marked $

	High	Low	Close	Ch'ge
2767 AMCA Int	$23¼	22	22½	+ ¼
224 Abil Prce	$21	21	21	— ½
7050 Agnico E	$7⅞	7¼	7½	— ¼
1100 Agra Ind A	$8	8	8	
4145 Alt Energy	$18¼	17¾	18¼	+ ¼
8788 Algoma St	$42¼	41⅞	42	+ ⅛

Toronto Stocks

Closing Prices, Nov. 23, 1981

[illegible]

Total sales 5,160,576 shares

Montreal Stocks

Closing Prices, Nov. 23, 1981

Quotations in Canadian funds.
All quotes cents unless marked $

[illegible]

Total Sales 1,413,885 shares.

Canadian Indexes

Nov. 24, 1981

[illegible]

U.S. Aide Urges Improved GATT

The Associated Press

GENEVA — The United States Tuesday called for further strengthening and improvement of the General Agreement on Tariffs and Trade, the 86-nation system accounting for four-fifths of global trade.

Michael B. Smith, a U.S. trade negotiator, told the annual GATT meeting that the group's competent bodies should start preparing the proposed 1982 ministerial conference quickly. He said it will be an opportunity for a general review of important world trade issues.

Mr. Smith made the remarks as representatives of the leading trading countries approved of the ministerial gathering. They were expected to agree formally Wednesday to hold the conference and set down its broad objectives.

The GATT members already are in agreement to hold the meeting in Geneva in a year. The ministers were expected to approve a general declaration on world trade and the GATT system leading member states want to adapt more thoroughly to changing conditions.

Mr. Smith said changes were necessary because of the current difficulties caused by sluggish growth, high inflation and unemployment and the pressure for protectionism they generate. "The near future promises more of the same," he said.

But he stressed that the United States, which remains committed to GATT, is "confident that the strengths of the system are still sufficient to prevent a collapse of the trading system and a return to the international economic chaos of the 1930s."

WestLB to Shut Down U.K. Eurobond Dealing

Reuters

FRANKFURT — Westdeutsche Landesbank Girozentrale plans to withdraw its Eurobond trading operations from its London branch office, Axel Kollar, a management board member said Tuesday.

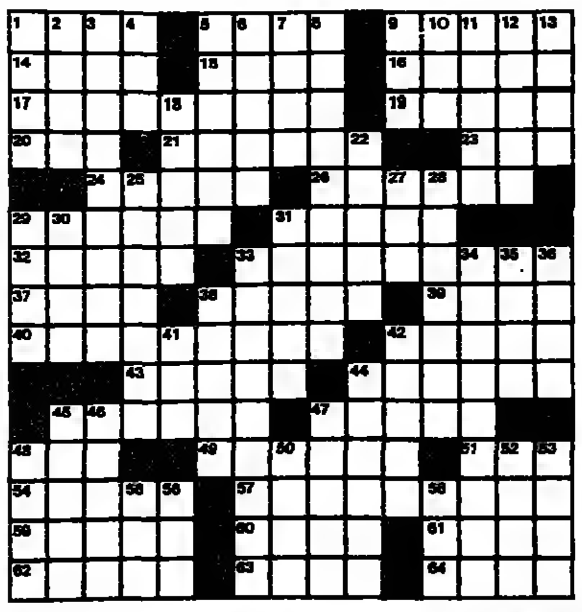
Mr. Kollar said the move involves a staff of three dealers, who will move to the head office in an effort to strengthen placement activities. No changes are expected in the relative importance of dollar and mark bonds in WestLB's operations, he said, nor does the move in any way signal a retreat from trading.

French Output Unchanged

Reuters

PARIS — French industrial production was unchanged in September after a 1.6 percent increase in July and August combined, according to provisional figures released Monday by the National

CROSSWORD — By Eugene T. Maleska



ACROSS

1 May Whitty, e.g.
5 MacDonald's milieu
9 Where Gov. Atiyeh works
14 Jaques' septet
15 Common code
16 Put
17 Thyme, e.g.
19 Location of a desirable theater seat
20 Word with peck or party
21 Hebrews' —— law
23 Dine
24 Glow
26 Hidden
29 Sacred songs
31 Shakespeare's misanthropic Athenian
32 Products of cerebration
33 Lee Strasberg's field
37 Part of h.c.l.
38 Sierra ——
39 Regarding
40 Objects made by humans
42 One involved in 33 Across
43 Boys, in Barcelona
44 Lottery, for short
45 Poniard
47 Burns
48 Movie location
49 Cup's partner
51 "—— Autumn," 1941 song
54 Long-legged bird
57 RCA Victor's "His Master's Voice," e.g.
59 Tutelary Roman deities
60 The Big Bad Wolf, e.g.
61 Zeno's milieu
62 Ragamuffin's delight
63 Walter or Donna
64 Posted

DOWN

1 Verve
2 Tommy or James
3 Welfare eligibility standard
4 Curved letter
5 Popes' capelike vestments
6 Get up
7 California rockfish
8 Henning and Blackstone
9 French Lick is one
10 MacGraw
11 Light beam
12 Brilliant success
13 Hold a session
18 Leaves out
22 —— il faut
25 Kind of pad
27 U.S.A. radio initials abroad
28 Lorelei or Circe
29 Isinglass
30 Smell
31 Certain horse races
33 Interior ——
34 Without a will
35 Cut short
36 Sun. A.M. talks
38 Bowling-alley divisions
41 Garden of Eden fruit
42 Onto
44 Sowed
45 Prevent
46 Make amends
47 Frighten
48 Army rank: Abbr.
50 Impel
52 Kind of Cross or Maiden
53 Card game
55 Spanish estuary
56 One of the Carsons
58 Editors' concerns: Abbr.

WEATHER

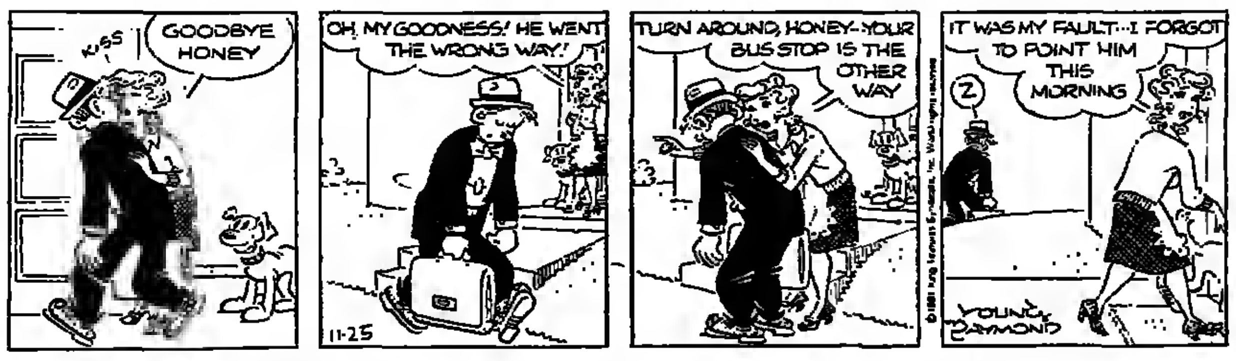
	HIGH C	HIGH F	LOW C	LOW F			HIGH C	HIGH F	LOW C	LOW F	
ALGARVE	20	68	18	64	Cloudy	MADRID	15	59	5	41	Overcast
ALGIERS	20	68	6	43	Fair	MANILA	29	84	21	70	Foggy
AMSTERDAM	7	45	6	43	Cloudy	MEXICO CITY	25	73	7	45	Sunny
ANKARA	13	55	-4	25	Foggy	MIAMI	25	77	15	25	Cloudy
ATHENS	20	68	9	48	Fair	MILAN	12	54	7	45	Foggy
AUCKLAND	21	70	11	52	Fair	MONTREAL	3	37	2	36	Cloudy
BANGKOK	32	90	25	77	Cloudy	MOSCOW	0	32	-4	25	Snow
BEIRUT	20	68	9	48	Fair	MUNICH	5	41	7	45	Rain
BELGRADE	13	55	3	37	Overcast	NAIROBI	37	51	15	59	Cloudy
BERLIN	6	43	5	41	Showers	NASSAU	28	82	21	70	Fair
BOSTON	5	42	1	30	Fair	NEW DELHI	28	82	11	52	Fair
BRUSSELS	7	45	3	37	Fair	NEW YORK	6	43	2	36	Cloudy
BUCHAREST	15	59	4	39	Foggy	NICE	14	57	9	48	Overcast
BUDAPEST	14	57	2	36	Cloudy	OSLO	1	34	0	32	Overcast
BUENOS AIRES	34	75	16	61	Fair	PARIS	9	48	3	37	Overcast
CAIRO	21	70	9	48	Fair	PEKING	5	51	-2	28	Fair
CAPE TOWN	27	81	5	41	Fair	PRAGUE	7	57	4	39	Fair
CASABLANCA	23	73	12	54	Fair	REYKJAVIK	-10	14	-12	10	Fair
CHICAGO	4	39	1	34	Cloudy	RIO DE JANEIRO	37	81	23	73	Fair
COPENHAGEN	6	43	3	37	Showers	ROME	16	61	5	47	Foggy
COSTA DEL SOL	21	70	14	54	Overcast	SALISBURY	23	72	16	61	Cloudy
DAMASCUS	17	63	-4	25	Fair	SAO PAULO	26	79	18	64	Foggy
DUBLIN	5	41	1	36	Fair	SEOUL	5	49	-1	30	Fair
EDINBURGH	4	39	1	34	Fair	SHANGHAI	13	55	6	43	Rain
FLORENCE	14	57	10	50	Foggy	SINGAPORE	29	84	23	72	Cloudy
FRANKFURT	7	45	2	36	Cloudy	STOCKHOLM	4	39	4	39	Overcast
GENEVA	11	52	5	48	Foggy	SYDNEY	23	72	16	61	Cloudy
HELSINKI	4	39	-4	25	Fair	TAIPEI	28	82	23	72	Cloudy
HONG KONG	23	73	21	70	Fair	TEL AVIV	22	72	5	41	Cloudy
HOUSTON	25	77	14	57	Cloudy	TOKYO	15	64	5	5	Cloudy
ISTANBUL	16	61	10	50	Fair	TUNIS	20	68	5	5	Fair
JERUSALEM	14	57	6	43	Fair	VENICE	10	50	5	41	Foggy
LAS PALMAS	23	73	21	70	Cloudy	VIENNA	13	55	4	39	Showers
LIMA	22	72	17	63	Cloudy	WARSAW	7	45	5	41	Fair
LISBON	21	70	14	54	Cloudy	WASHINGTON	5	41	0	32	Cloudy
LONDON	7	45	3	37	Fair	ZURICH	9	48	5	44	Showers
LOS ANGELES	20	68	14	57	Cloudy						

Readings from the previous 24 hours.

PEANUTS

B.C.

BLONDIE



BEETLE BAILEY

ANDY CAPP

WIZARD of ID

REX MORGAN

DOONESBURY

JUMBLE

THAT SCRAMBLED WORD GAME by Henri Arnold and Bob Lee

Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

HINEW

JARAH

NEIFED

UNPRIT

Now arrange the circled letters to form the surprise answer, as suggested by the above cartoon.

Print answer here:

(Answers tomorrow)

Yesterday's | Jumbles: VAPOR SHINY CLOVEN GLUTEN | Answer: What he said to the horse who was tending bar—"GIVE ME A SNORT"

DENNIS THE MENACE

"WHEN ITS 'PLENTY' IS ALL GONE, CAN I HAVE IT FOR MY BIKE?"

BOOKS

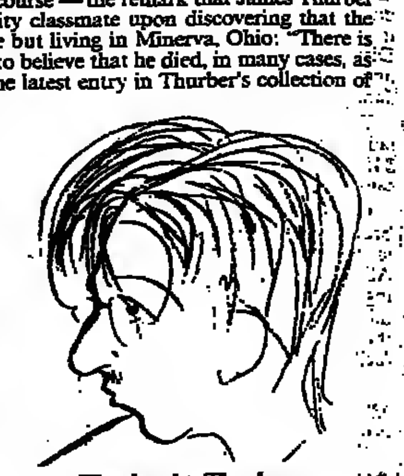
SELECTED LETTERS OF JAMES THURBER

Edited by Helen Thurber and Edward Weeks. (Illustrated With Thurber Drawings.) 274pp. $15.

Atlantic-Little, Brown & Co., 34 Beacon St., Boston, Mass.

Reviewed by Christopher Lehmann-Haupt

WE LAUGH at the funny parts, of course — the remark that James Thurber wrote to an Ohio State University classmate upon discovering that the poet Ralph Hodgson was not only alive but living in Minerva, Ohio: "There is something about a poet which leads us to believe that he died, in many cases, as long as 20 years before his birth." Or the latest entry in Thurber's collection of sentences significantly altered by the subtraction of a single letter — a warning to pickpockets: "God help those who help themselves."



Thurber by Thurber.

Or Thurber's remarks to a friend on the problems of myopic driving: "A peril of the night road is that flecks of dust and streaks of bug blood on the windshield look to me often like old admirals in uniform, or crippled apple women, or the front edge of barges, and I whirl out of their way, thus going into ditches and fields and up on front lawns, endangering the life of authentic admirals and apple women who may be out on the roads for a breath of air before retiring." Or the funny sketch that Thurber once wrote, called "The Letters of James Thurber" — "The effect of Thurber's letters on his generation was about the same as the effect of anybody's letters on any generation, that is to say, nil." "I am not sure that we should not judge him too harshly." — which the editors of this volume have felicitously enlisted as an introduction to the real thing.

Sense of Humor

We laugh at the funny parts, and though we ought to have learned by now that funny animals have teeth and claws, we are surprised once again, as we were in the several bad biographies that have appeared so far, by Thurber's anger and fierceness and intellectual tenacity — the sheer variety of his moods and interests, which the editors have cannily managed to reflect in this selection, by ignoring strict chronology and organizing the letters around recipients and subjects.

There is Thurber describing for his ophthalmologist the lovely visions induced by his eye disease, and deploring those "hundreds of hysterical persons" who "confuse these phenomena with messages from the beyond, and take their glory to the bishop rather than the eye doctor." There is his on Charlie Chaplin's lack of any sense of humor except his own. On a case where Fowler's Modern English Usage is simply wrong. On the trials of whipping his wonderful reminiscence, "The Years With Ross," into shape. On why, in his relationship with Ann Honeycutt, "Our love never ripened into friendship."

There is also Thurber turning down requests for various literary favors, and being just a little nasty about it occasionally. This may remind us of the less attractive side of Thurber and the old New Yorker magazine crowd — a certain crotchety disdain for "the dull and ordinary persons," as Thurber refers at one point to those outside his circle, a lapidary perfectionism of prose style that has prompted critics over the years to call Thurber "precious" and "finicky."

This in turn may prompt us to air certain hostile questions: Who thinks about Thurber these days, unless one comes across his work and smiles nostalgically? What relevance does he have to the big political issues? What relevance does humor have? Who will remember him and his crowd two or three generations from now? And incidentally, if, as he claims, he really had to rewrite his prose 10 to 25 times in order to get it right, how come he writes so gracefully in these presumably spontaneous jottings?

Here and there in these letters, Thurber offers a response to some of this hostility. On himself and the big political issues: "It came to me today, walking in the rain to get Helen a glass of orange juice, that the world exists only in my consciousness (whether as a reality or as an illusion the evening papers do not say, but my guess is reality). The only possible way the world could be destroyed, it came to me, was through the destruction of my consciousness. This proves the superiority of the individual to any and all forms of collectivism."

On the comparative relevance of comedy and tragedy: "An evening given over completely to serious discussion is as dull as one given over entirely to clowning around. After a little Einstein there ought to be a little of Cole Porter, after talk about Kierkegaard and Kafka should come imitations of Ed Wynn and Fields. Humor is counterbalance. Laughter need not be cut out of anything, since it improves everything. The power that created the poodle, the platypus and people has an integrated sense of both comedy and tragedy."

Diamonds

On the likelihood of Thurber and his crowd to survive: "The story of Harold Ross, The New Yorker, and me, is a mere footnote to the story of our time, and we might as well face the truth that to researchers of the future, poking about the ruins of time, we shall all be tiny glitters. But then, so are diamonds."

But then so are diamonds. The effect of Thurber's letters, like most of the rest of his writing, is to create a special concentration of those tiny glitters.

Christopher Lehmann-Haupt is on the staff of The New York Times.

Best Sellers

The New York Times

This list is based on reports from more than 1,400 bookstores throughout the United States. Weeks on list are not necessarily consecutive.

FICTION

This Week		Last Week	Weeks on List
1	AN INDECENT OBSESSION, by Colleen McCullough	1	[illegible]
2	THE HOTEL NEW HAMPSHIRE, by John Irving	2	10
3	CUJO, by Stephen King	3	15
4	NOBLE HOUSE, by James Clavell	4	29
5	THE LEGACY, by Howard Fast	5	7
6	RABBIT IS RICH, by John Updike	6	5
7	THE CARDINAL SINS, by Andrew M. Greeley	7	22
8	GORKY PARK, by Martin Cruz Smith	12	33
9	THE LAST DAYS OF AMERICA, by Paul Erdman	10	13
10	THE THIRD DEADLY SIN, by Lawrence	8	17
11	THE GLITTER DOME, by Joseph Wambaugh	14	22
12	REMEMBRANCE, by Danielle Steele	9	3
13	NIGHT PROBE, by Clive Cussler	15	13
14	NO TIME FOR TEARS, by Cynthia Freeman	13	2
15	SPRING MOON, by Bette Bao Lord	—	1

NONFICTION

This Week		Last Week	Weeks on List
1	NEVER-SAY-DIET BOOK, by Richard Simmons	1	42
2	THE LORD GOD MADE THEM ALL, by James Herriot	2	29
3	FROM BAUHAUS TO OUR HOUSE, by Tom Wolfe	6	4
4	THE BEVERLY HILLS DIET, by Judy Mazel	3	27
5	HOW TO MAKE LOVE TO A MAN, by Alexandra Penney	5	14
6	A LIGHT IN THE ATTIC, by Shel Silver	4	3
7	THE CINDERELLA COMPLEX, by Colette Dowling	9	18
8	COSMOS, by Carl Sagan	7	54
9	JANE BRODY'S NUTRITION BOOK, by Jane Brody	10	15
10	MISS PIGGY'S GUIDE TO LIFE, by Miss Piggy as told to Henry Beard	11	22
11	THE SOUL OF A NEW MACHINE, by Tracy Kidder	12	5
12	PATHFINDERS, by Gail Sheehy	8	3
13	SOCIAL STUDIES, by Fran Lebowitz	13	8
14	LIVING ALONE AND LIKING IT!, Lynn Shahan	—	15
15	THEORY Z, by William G. Ouchi	14	22

Solution to Previous Puzzle

```
MAMA OBESE SNIP
ARAO PACER TORT
STLOUISCARDINAL
SATURATE  ALONE
   NATE GAGE   
CANDLE ARMA ASP
ALOE  ATEAM ETA
SANDIEGOCHARGER
ETE MALMO  EIRE
DES PRET ERASER
   WONT SLAW   
ARSIS  SCENARIO
MINNESOTAVIKING
PLIE PEALE ESNE
SETS AROEN NOSE
```

BRIDGE — By Alan Truscott

WHEN East opened one heart, South might have plunged directly into three no-trump. However, he needed very little in the North hand to justify a slam contract, so he proceeded slowly. When he doubled, his partner chose the economical bid of one spade, with a three-card suit, rather than the obvious two diamonds. He was now in difficulties when South cue-bid hearts, and rebid his suit, such as it was, in the hope of applying the brakes.

NORTH
♠652
♡J43
◇J976
♣863

WEST
♠10873
♡985
◇Q4
♣J1095

EAST (D)
♠KQ4
♡Q10762
◇A10852
♣—

SOUTH
♠AJ8
♡AK
◇K3
♣AKQ742

North and South were vulnerable.
The bidding:

East	South	West	North
1♡	Dbl.	Pass	1♠
Pass	2♡	Pass	2♠
Pass	3N.T.	Pass	Pass
Pass			

West led the heart nine.

Luckily for the partnership, South did not take the spades seriously and bid three no-trump. When a heart was led, he thought he could see nine tricks, but the play of the club ace at the second trick disillusioned him.

He persevered with clubs, and West won the fourth round and played another heart. After South had won and cashed one club winner, the position was this:

NORTH
♠65
♡J
◇J87
♣—

WEST
♠1097
♡5
◇Q4
♣—

EAST
♠KQ
♡Q10
◇A10
♣—

SOUTH
♠AJ8
♡—
◇K3
♣4

On the lead of the last club, a spade was thrown from dummy and East was helpless. If he had thrown a heart, South would have played spades and eventually scored the diamond king. In practice, East threw the diamond ten, and South read the position correctly. He led his low diamond, and eventually scored his ninth trick with the diamond king.

هكذا من الأصل

5 Convicted in Point-Fixing Conspiracy

From Agency Dispatches

NEW YORK — A federal jury has found former Boston College basketball player Rick Kuhn and four others guilty of conspiring to shave points and fix basketball games during the 1978-79 season.

A jury of eight women and four men reached its verdict late Monday after three days of deliberation in the trial's fifth week. Said U.S. District Judge Henry Bramwell: "I agree with your verdict." He set Jan. 8 for sentencing.

The defendants face maximum jail terms of 20 years and fines of $45,000 each. Defense attorneys said they would appeal.

Convicted with Kuhn were brothers Anthony and Rocco Perla, Paul Mazzei and James Burke. All were found guilty of racketeering conspiracy, conspiracy to commit sports bribery and violation of the Travel Act, i.e., using interstate facilities to perpetrate crime.

A three-count indictment against the defendants had been returned July 29.

Burke and Mazzei are currently serving time in federal prisons, Burke for parole violation stemming from an extortion conviction and Mazzei for narcotics trafficking.

The government centered its case on six Boston College games of 1978-79. Testimony maintained that Kuhn and several unindicted players were paid $2,500 per game to shave points and "dump" games so BC would not beat the bookmakers' betting point spread. Kuhn was also given cocaine and Quaaludes.

Key Witness

Crucial to the prosecution's case was witness Henry Hill, a bettor who later told authorities what he knew in exchange for immunity from prosecution on drug charges.

Hill detailed the scheme from July, 1978, when his friend Mazzei proposed the idea, saying a Pittsburgh bookmaker, Anthony Perla, and his younger brother, Rocco, had been "prepping" Kuhn, a high school friend of Rocco Perla.

The Pittsburgh men sought Hill's help because they needed protection from any retaliation by angry bookmakers and because they wanted to establish a network to farm out bets to increase their profits — something they felt Burke could do in New York.

The idea, Hill said, was to regulate the point spread — the number of points by which major oddsmakers made Boston College a favorite or an underdog in a given game.

The day of a game, Anthony Perla would tell Kuhn the point-spread that had to be beaten and Kuhn purportedly was to see to it that the score fell within the range indicated.

Kuhn was also said to have attempted to recruit other players, including co-captain Ernie Cobb, the team's high scorer, and Joe Beaulieu. Co-captain Jim Sweeney cooperated with the government, testifying that he pretended to go along because he was scared. Beaulieu testified that he refused to take part. Only Kuhn was charged.

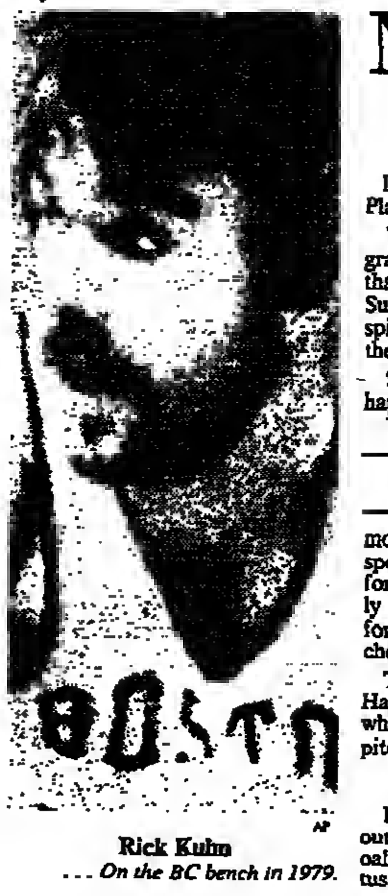
Hill said he, Burke and others bet as much as $30,000 on some games. The "fix" did not always work: Three times bettors won, twice they lost and once they tied.

Legal Issue

Under the law, however, success or failure of the scheme was immaterial; the legal issue was whether the defendants had conspired to rig games by controlling their scores.

According to testimony, the syndicate always bet against Boston College. The games and the results:

- Dec. 6, 1978: Against Providence College, BC was favored to win by 6 points. For the syndicate to win its bets on Providence, the Eagles had to win by fewer than 6, or to lose. But BC won by 19 (83-64).
- Dec. 16: BC was a 12-point favorite over Harvard. The Eagles won by only 3 (86-83). The syndicate won.
- Dec. 23: BC was the underdog to UCLA by 15; the Eagles lost by 22 (103-81) and the syndicate won.
- Feb. 3, 1979: BC was a 13-point favorite over Fordham. The Eagles won by only 7 (71-64) and the syndicate won.
- Feb. 6: St. John's was a 9-point favorite; BC lost by 9 (85-76), resulting in a "push" — bettors on both sides of the line neither won nor lost.
- Feb. 10: Holy Cross was a 7-point favorite, but beat BC by only 2 (98-96). The syndicate lost.



Rick Kuhn
. . . On the BC bench in 1979.

Netherlands' Ominous Salvo

By Rob Hughes
International Herald Tribune

LONDON — "Bomb Stops Play."

That headline, on a single paragraph of Dutch news agency copy that flashed across Europe last Sunday, will send a chill down the spines of administrators preparing for the final stages of next World Cup.

Sooner or later, it was bound to happen.

The bomb has become so com-

SOCCER SCENE

monplace a symbol of protest that sport, long the catalyst or the stage for hooligan elements, could hardly go on believing in its immunity from society's anarchists and psychopathically disaffected.

The match concerned, The Hague vs. Utrecht, was abandoned when two bombs exploded on the pitch before halftime.

Expiration

It came in a country whose one outstanding soccer generation finally surrendered World Cup status a week ago; a nation where the professional game is at any rate expiring from the huge financial demands that generation made on it, and from the apathy and from the hooliganism that has grown as rife at its matches as at the more widely publicized ones in Britain.

The Netherlands' defeat in France means its bombers may feel no attraction to Spain in six months' time.

The appalling Spanish fix of tying match tickets to official holiday package deals virtually shuts out the floating soccer fan. Yet when the stragglers are finally decided within the next 10 days, there will be 24 nations at the finals, more than ever before.

I would not like to be responsible for the security headache.

All but two of the European finalist are known. We await the results between Czechoslovakia and Soviet Union in Bratislava on Sunday and then France vs. Cyprus in Paris Dec. 5th.

Czechoslovakia needs a draw to join its Russian masters in the finals. Should it loose, Wales would go through.

'I Dread . . .'

The Soviet Union demonstrated again in Tbilisi last week that its play is as powerful and attractive as its bureaucracy is exasperating. In utterly outplaying Wales, 3-0, and in scoring through Oleg Blokhin's pace on the end of Leonid Burjak's perception one of the most breathtaking goals of this World Cup, the Russians showed irresistible form.

Afterword, fearing a Communist collaboration, Wales Manager Mike England said, darkly: "I dread one of those boring nil-nil games in Bratislava."

Konstantin Beskov, the smiling man who has pioneered the Russians' flowing soccer, said simply: "Football must now not be betrayed."

If his is the last word, the Soviet Union ought to win, despite the Czechs' home advantage. In Tbilisi three weeks ago the 2-0 Soviet victory could have been a half-dozen goals more convincing.

The remaining match in Europe should be a formality for the French, who were 7-0 winners in the first-leg match in Cyprus.

That leaves the Asia/Oceania candidates to conclude their business, which at the moment highly favors China and Kuwait over New Zealand and Saudi Arabia. And the second African finalist ought to be Cameroon, which Sunday plays at home against a Moroccan side it has already beaten, 2-0.

These will join the 19 teams that have already qualified: Algeria, Argentina (holder), Austria, Brazil, Chile, Belgium, El Salvador, England, Honduras, Hungary, Italy, Northern Ireland, Peru, Poland, Scotland, the Soviet Union, Spain (host), West Germany and Yugoslavia.

Meanwhile, 16 European clubs concentrate this week on the third round of the UEFA Cup, the only one of the three European competitions active at this stage.

Choice

Provided the gale force winds battering the oil rigs subside, the choice match will be at Aberdeen.

The Scots, victors over UEFA champion Ipswich, are pitted against a Hamburg side brimming with West German internationals.

A personal battle that might personify the play is between Gordoo Strachan, Aberdeen's flame-haired young creator, and Franz Beckenbauer, returned from injury and revealing sufficient silken touch and naked ambition to suggest his World Cups are not yet emptied.

Another Kid From Alabama Takes Over New York, New York

By Steve Hershey
Washington Post Service

NEW YORK — This often cynical, cold-hearted city has gone wacko again over a National Football League quarterback from Alabama.

The first signal-caller to come here from the Bear Bryant School of Football wound up being dubbed "Broadway Joe" Namath. He still is the gauge by which all other New York Jet quarterbacks are measured.

Now, at last, with the Jets in the top spot in the American Conference East for the first time since 1969, there is another 'Bama quarterback who has captured the fans' attention and affection.

In the last two months, Richard Todd has directed the Jets to a 7-1-1 record, and they seem certain to reach the playoffs after a demoralizing 11-year absence.

It was his courageous performance Sunday that finally earned him the respect of even his most constant critics.

Playing with a plastic-support elastic corset around his torso and a flak jacket to protect a broken rib, Todd took his team 77 yards in the final three minutes for the winning touchdown. His 11-yard pass to Jerome Barkum with 16 seconds left nipped Miami, 16-15, in what some are calling the most important football game played here in a decade.

"Richard Todd has won his way into the hearts of New Yorkers; they should all love him," said tackle Marvin Powell, who has watched the up-and-down saga of his quarterback for five seasons.

"Richard Todd commanded respect. He's a leader. He never let on he was in pain. We knew he was hurt all week, but as soon as we found out he was going to start, it got everybody jacked up."

Playing in pain is a creed in the NFL, but Todd's performance will long be remembered by New Yorkers who fondly recall Namath, hobbling on bad knees, leading the Jets to last-minute victories a decade ago.

Todd's ribs were so sore that he couldn't speak above a whisper last Tuesday.

To make sure his teammates could hear his signals, he had a tiny microphone attached to his face mask and an amplified speaker hooked to his shoulder pads.

"I tried it before the game and it worked fine, but I still didn't want to use it unless I had to," he said. "I never did use it in the game."

It turned out that a freak injury to his left ankle — when center Joe Fields backed up and stepped on it — caused Todd more problems than his ribs.

He admitted afterward that he couldn't set up properly to pass to his left and was limited in his range.

"We tried to use plays where Richard would set up quicker," explained Joe Walton, the offensive coordinator. "We didn't want him to make too many deep drops where he would have more chance of getting sacked."

It is a strange twosome, Todd and Walton. Both were much maligned last season, but once they joined forces, Todd improved remarkably.

"I wasn't satisfied with Richard at the beginning of the season," Walton said, alluding to the team's 0-3 start. "I knew he could do a lot better.

"I feel that he's proven that now. He's learned so much, to read defenses and to go to the right receivers.

"He's more relaxed, he has more confidence. But that comes from knowing what to do in certain situations and knowing comes from hard work. Richard has improved, but he can get even better."

A Year's Difference

This season Todd has completed 206 of 356 passes for 2,396 yards and 19 touchdowns — with only 8 interceptions. He ranks fourth in the AFC.

Last year he hit on 55 percent of his attempts (264 of 479), but had 30 interceptions.

"What some people lost sight of is that it often takes a long time for a quarterback to make it in the NFL," said Coach Walt Michaels. "They expect a quarterback to come out of college and step in as a winner, and it just doesn't happen."

New Yorkers, of course, were impatient. Touted as another Namath — "Joe was my idol and I never wanted to be compared to him," Todd has said many times — he struggled during his formative years and once lost his job to newcomer Matt Robinson.

By 1979, he was booed regularly at Shea Stadium and once reacted by making an obscene gesture at the fans. He admits he was bitter and unhappy at times, particularly when the losses mounted.

"I feel a lot more comfortable here now than I used to," he said. "But that's because we're winning."

With last-place Baltimore coming to town Sunday, the Jets will have an excellent chance to continue their winning ways, if Todd can play. He said the sprained ankle will keep him from practicing until Thursday.

"They want me to stay off of it," he said, then added with a laugh: "But my ribs are so sore, I can't use crutches."

The Associated Press

Richard Todd
'. . . It got everybody jacked up.'

2d-Half Comeback Defeats Vikings For Falcons, 31-30

The Associated Press

ATLANTA — Quarterback Steve Bartkowski threw two third-quarter touchdown passes and Buddy Curry capped a comeback with a 35-yard interception return for another score in the final period as the Atlanta Falcons downed the Minnesota Vikings, 31-30, in a National Football League game here Monday night.

Curry's return gave the Falcons a 31-21 lead but, just after Atlanta gave up an intentional safety, Viking quarterback Tommy Kramer completed his fourth TD pass of the game, a 16-yarder to Joe Senser with 1:07 left, to narrow Atlanta's margin to one point. The Falcons recovered the ensuing onside kick, however, and ran out the clock.

Trailing 21-7 at halftime, Atlanta got back in the game when Bartkowski hit Junior Miller and Wallace Francis with scoring passes early in the third period; during that quarter, a swarming defense held Minnesota to 15 yards.

A 32-yard fourth-period field goal by Mick Luckhurst put Atlanta ahead to stay and Curry came through with his first interception of the year for the clinching score with 4:06 left to play.

Soviet Women Take World Gymnastics Lead

United Press International

MOSCOW — The Soviet Union, beaten only twice since 1954, Tuesday emerged in a strong position to recapture the women's team title and retain the individual all-round trophy with a sharp display in the compulsory program at the 21st World Gymnastics Championships.

The Russians surged to the top of the team standings with 194.40 points. China was second with 192.60; East Germany, spearheaded by European champion Maxi Gnauck, was third (190.25) and defending champion Romania fourth (189.90).

The Romanians, competing without Nadia Comaneci and world championship brooze medalist Melita Ruhn, were barely ahead of the U.S. team's 189.00.

The Russians filled three of the top four places in the combined individual standings, where the top 36 qualify for the finals after the team competition ends Thursday.

Natalia Ilenko outshone Olympic champioo Elena Davidova to lead the field with 39.05 against her teammate's 39.00. Ilenko tallied 9.65 for the vault, 9.80 on the assymetric bar, 9.70 for the beam and 9.90 for the floor exercise compared to Davidova's 9.70, 9.90, 9.50, 9.90.

But Davidova's flare in the free program makes her the most likely successor to retired compatriot Nelli Kim as world champion.

Gnauck, tied for second with Comaneci behind Davidova in the 1980 Olympics, is also in contention, holding third with 38.95, ahead of the Soviet Union's Olga Bicherova (38.90). Gnauck would have been in a more challenging position but for a poor performance on the beam, where she scored a disappointing 9.25.

The Chinese set the early pace thanks to Cheng Yong Yang (38.75) and Zho Zheng (38.70), but they slipped from the top two slots to fifth and sixth respectively.

The host nation scored highest in all four exercises, proving particularly effective on the beam, where its combined total of 47.55 was more than one point better than the next best.

With the top five scores from each six-strong team counting, the Russians logged 48.55 for the vault, 49.10 on the asymmetric bars, 47.55 on the beam and 49.20 for the floor exercise. China's respective scores were 48.20, 48.85, 46.45 and 49.10. The East Germans logged 48.05, 47.30, 46.55 and 48.35.

Romania did not have a single competitor in the top 10. Rodika Dunka was its highest-placed performer, 12th with 38.35 points, behind American Julianne McNamara, who stood 11th with 38.40.

College Football Polls

The Associated Press

NEW YORK — The top 20 teams in The Associated Press college football poll, with first-place votes in parentheses, season's record and total points:

1. Pittsburgh (40)	10-0-0	1,294
2. Clemson (5)	11-0-0	1,234
3. Georgia	9-1-0	1,157
4. Alabama	8-1-1	1,054
5. Nebraska	9-2-0	1,015
6. So. Methodist	10-1-0	965
7. Texas	8-1-1	904
8. So. Cal.	9-2-0	797
9. Miami (Fla.)	8-2-0	708
10. No. Carolina	9-2-0	656
11. Penn St.	8-2-0	645
12. Washington	9-2-0	604
13. Iowa	8-3-0	471
14. Brigham Young	10-2-0	377
15. Ohio St.	8-3-0	338
16. Michigan	8-3-0	292
17. So. Mississippi	8-1-1	264
18. Arizona St.	8-2-0	253
19. UCLA	7-3-1	199
20. Washington St.	8-2-1	139

United Press International

NEW YORK — The United Press International board of coaches' top 20 college football ratings, with first-place votes and records in parentheses:

1. Pittsburgh (39) (10-0)	597
2. Clemson (3) (11-0)	578
3. Georgia (9-1)	536
4. Alabama (8-1-1)	487
5. Nebraska (9-2)	455
6. Texas (8-1-1)	394
7. So. Cal. (9-2)	375
8. No. Carolina (9-2)	276
9. Penn St. (8-2)	269
10. Washington (9-2)	247
11. Iowa (8-3)	164
12. Brigham Young (10-2)	145
13. Michigan (8-3)	116
14. Ohio State (8-3)	104
15. So. Mississippi (8-1-1)	84
16. UCLA (7-3-1)	59
17. Arkansas (8-3)	51
18. Washington St. (8-2-1)	26
19. Houston (6-3-1)	12
20. San Jose St. (9-2)	8

By agreement with the American Football Coaches Association, teams on probation by the NCAA are ineligible for the top 20 and national championship consideration by the UPI board of coaches. The teams currently on probation are Arizona State, Miami (Fla.) and Southern Methodist.

Transactions

BASEBALL
American League
SEATTLE—Added Sammye Welborn, pitcher, to their 40-man winter roster.
National League
CINCINNATI—Named Joe Amalfitano an assistant coach.

HOCKEY
National Hockey League
ST. LOUIS—Called up Jon Mallett, right wing, and Alain Lemieux, center, from Salt Lake of the Central Hockey League, and Rik Wilson, defenseman, from their Kingston junior hockey club affiliate.

NHL Standings

WALES CONFERENCE
Patrick Division

	W	L	T	GF	GA	Pts
NY Islanders	12	4	4	82	70	28
Pittsburgh	9	8	4	79	82	22
Philadelphia	10	9	1	72	89	21
NY Rangers	8	12	1	70	88	17
Washington	5	14	1	67	79	11
Adams Division						
Boston	12	8	4	87	64	28
Quebec	13	9	2	110	96	28
Montreal	11	3	5	102	47	27
Buffalo	10	5	6	76	64	26
Hartford	3	10	7	63	85	13
CAMPBELL CONFERENCE						
Norris Division						
Minnesota	11	4	5	93	56	27
Chicago	9	5	7	108	89	25
Winnipeg	9	8	3	81	92	21
Detroit	7	10	5	86	97	19
St.Louis	7	12	3	81	92	17
Toronto	5	11	4	86	94	14
Smythe Division						
Edmonton	14	4	3	120	86	31
Vancouver	9	9	4	80	77	22
Los Angeles	9	12	0	93	104	18
Calgary	5	12	5	73	104	15
Colorado	3	13	4	53	103	10

Monday's Result
Edmonton 8, Detroit 4 (Lumley (4), Anderson 3 (12), Hagman (14), Gretzky (24), Weir (3), Coffey (9); Fallano (12) G. Smith 2 (2), Ogrodnick (13)).

Bavasi Resigns Jays' Presidency

United Press International

TORONTO — Peter Bavasi, who made Toronto one of the biggest successes in major league expansion history, resigned Tuesday as the Blue Jays' president after a five-year tenure.

Bavasi took over the club in its 1976 infancy and orchestrated one of the most effective public relations campaigns in baseball, making the Blue Jays a financial success despite their last place finish every year in the American League East.

Bavasi, 39, emphasized baseball as a family attraction and in the Jays' first four seasons brought fans into Exhibition Stadium in record numbers — averaging 1.5 million a year.

But the Blue Jays, again finishing at the bottom of the divisional standings, drew only 755,083 in the strike-shortened 1981 season, about 226,000 fewer than in 51 home dates the previous year.

The club's ownership reportedly had grown weary of "Toronto turkey" jokes.

NFL Standings

AMERICAN CONFERENCE
Eastern Division

	W	L	T	PF	PA	Pct.
Miami	7	4	1	275	238	.625
N.Y. Jets	7	4	1	265	244	.625
Buffalo	7	5	0	227	209	.583
New England	2	10	0	257	277	.167
Baltimore	1	11	0	209	412	.083
Central Division						
Cincinnati	9	3	0	330	224	.750
Pittsburgh	7	5	0	275	229	.583
Cleveland	5	7	0	206	261	.417
Houston	5	7	0	210	253	.417
Western Division						
Denver	8	4	0	241	194	.667
Kansas City	8	4	0	303	224	.667
San Diego	7	5	0	378	311	.583
Oakland	5	7	0	195	239	.417
Seattle	4	8	0	207	289	.333
NATIONAL CONFERENCE						
Eastern Division						
Dallas	9	3	0	289	222	.750
Philadelphia	9	3	0	297	172	.750
N.Y. Giants	6	6	0	242	273	.500
St. Louis	5	7	0	248	327	.417
Washington	5	7	0	250	294	.417
Central Division						
Minnesota	7	5	0	280	269	.583
Detroit	6	6	0	291	254	.500
Tampa Bay	6	6	0	217	190	.500
Green Bay	5	7	0	220	286	.417
Chicago	3	9	0	176	275	.250
Western Division						
San Francsc	9	3	0	270	214	.750
Atlanta	6	6	0	328	253	.500
Los Angeles	5	7	0	268	271	.417
New Orlens	4	8	0	114	261	.333

Monday's Result
Atlanta 31, Minnesota 30
Thursday's Games
Kansas City at Detroit
Chicago at Dallas
Sunday's Games
Baltimore at N.Y. Jets
Cincinnati at Cleveland
Green Bay at Minnesota
Los Angeles at Pittsburgh
St. Louis at New England
Washington at Buffalo
Tampa Bay at New Orleans
Atlanta at Houston
Denver at San Diego
N.Y. Giants at San Francisco
Oakland at Seattle
Monday's Game
Philadelphia at Miami

Observer

A Big, Happy Family

By Russell Baker

NEW YORK — The thing about our family is — well, it's a happy family, and as Tolstoy said, happy families are all alike. So I guess what I'm saying is that our family is just like your family. Provided your family is happy too, and why shouldn't it be?

Of course in our family, like all families, we have our little problems. Cousin Al Haig, for example, down there in Foggy Bottom — he's got a little problem. Somebody up here at the big house has been poisoning his well.

Baker

He comes storming up here, says, "I tell you, Pap, we got a well-poisoner in the family, and I'm pretty darn unhappy about it."

Well, I can't have that going on, so I yell for Cousin Dick Allen and Cousin Jim Baker to get down to the sitting room. "Somebody up here's been poisoning Cousin Al's well, and I know it isn't you fellows, but I want you to join me and Cousin Al in a chorus of 'The Most Happy Fella,' and since Cousin Al is the most happy fella in the whole Foggy Bottom I want him to lead the singing."

* * *

One night I'm sitting around with Cousin Cap Weinberger humming "Be it ever so humble, there's no place like the Pentagon," when I notice Cousin Cap scowling.

"Cousin Al doesn't think it's so humble," says Cap. "He's down there right now squatting on the south forty like its his own private acreage."

The south forty is where we grow the thermonuclear policy. It seems Cousin Al has been saying we might blow off a demonstration bomb, and Uocle Cap had to call the newspaper and say Cousin Al is full of horse feathers.

Naturally I want to smooth things out between them, as this kind of dispute can lead to unhappiness. So I pbone the editor and tell him Cousin Al is right enough about the bomb demonstration but Cousin Cap is also right about Cousin Al being wrong.

Afterward I put Cap on the phone and make him sing "Happioess Is Just A Guy Named Cap."

Keeping friends happy makes you feel even better. Not long ago King Khaled sent a fellow over from Arabia and I noticed him moping around the big house looking as miserable as a horse with a scorpion under the saddle.

How to cheer him up? I got Cousin Al, Cousin Cap and Cousin Dick Allen all together and we practiced harmony singing until we got it right. Then late one night we stood on the lawn where our Arab friend couldn't help but hear and sang, "At night when you're asleep, into your tent we'll creep — and leave some AWACS!"

* * *

One day when I'm headed out to the vegetable patch, Cousin Don Regan runs out of the counting house waving a oewspaper.

"Where you going, Pap?"

"Going down to see if the ketchup plants are coming up yet."

"Look at what young Dave's saying about you," says Don.

"Young Dave's a smart boy, Cousin Don. One of these days he's going to be somebody when he learns to talk happy." The thought of young Dave talking his way happily to the top of the heap made me feel so good I asked Cousin Don to join me in singing "Happy Talk," but it had been so long since he'd seen "South Pacific" that he forgot the words, so I settled for scanning his newspaper.

"This is terrible," I said.

"Sure is. He says you've been talking through your hat for the last six months."

"That's not the terrible thing. The terrible thing is, young Dave isn't as happy as he ought to be."

So I called the boy np to the big house. Never saw a boy so down in the mouth. "I know I did wrong and deserve a thrashing, Pap," he says.

"Young Dave," says I, "I couldn't do that. It would make you unhappy, and making you unhappy would make me unhappy. I want to be happy, and I want you to be happy too. Won't you join me in song?"

His eyes were misty, but he put his arm around my shoulder and joined me in singing, "I Want To Be Happy."

While we were singing I heard some rowdies out in the meadow bawling, "Happy Days Are Here Again."

"Just Democrats," I told Dave. "It's nice to know you can even make a Democrat happy."

New York Times Service

Perdita Huston

Birth-Control Advocate Has Spent Much Of Her Life Sharing Concerns Of Women in Third World

By Nan Robertson

New York Times Service

NEW YORK — Picture the scene. Perdita Huston, a stunoing, green-eyed woman from Maine, is sitting in the back room of a rural health clinic on a dusty road north of Cairo. Gazing back at Huston from over a black veil is another beautiful woman, Zohila. Her eyes are dull with maloutritioo and overwork. She is only 20 years old, and has come to the clinic with her fifth child, who is sick. The two women talk in country Arabic.

Cut to the Grand Hyatt Hotel on 42d Street in New York, a place of glittering steel and glass, with a fountain that splashes down a lobby wall. Huston is speaking angrily about the Zohilas of the world and how the men are still trying to keep them in their place with more babies. Then she adds, "But half the human species — the women — now have the possibility of controlling the one thing that was used to keep them in an inferior status: birthing.

"My theory about Egypt, Iran, the Moral Majority in this country is that the past generation or two has changed so rapidly that the establishment is threatened and they're putting on the brakes. You don't have to be a virgin any more, either. Available contraception methods change all human relationships and perceptions, here and in places where most of the legends and taboos revolve around virginity and reproduction. Men are scared to death."

Huston has been traveling the world all her adult life, most recently as the first woman to direct one of the three regions of the Peace Corps, with 2,300 volunteers. That region was a huge part of the globe, comprising North Africa, the Middle East, Asia and the Pacific. When she talked with Zohila and almost 200 other poor, illiterate, rural women in Egypt, Tunisia, Sudan, Kenya, Sri Lanka and Mexico five years ago, she was on a fact-finding mission for the United Nations Fund for Population Activities.

Her Egyptian tour ended in 1976. The book that resulted was "Third World Women Speak Out," published in 1979.

Haunting Example

Zohila haunts Huston, not because she is different but because she is so typical of women everywhere in developing nations. "The central fact of her life is the lack of self-esteem and choice," Huston said. "Her four brothers went to school, but not Zohila and her sister. The girls were considered useful only for marriage. She was 13 when her first child was born. Her husband had to leave Egypt to work as a laborer in the Gulf states because the tiny plot of land he inherited from his father was too small to feed the family. He comes home once a year and Zohila gets pregnant again. Then he goes to the village and boasts of the proof that he is manly."

Neither two marriages and two divorces nor three children have kept Huston down. She flew the nest in 1953, "as far as I could," from her conventional family in Portland, Maine, to the University of Colorado in Boulder. "The campus was stifled in the atmosphere of Sen. Joe McCarthy and bigotry," she said, her eyes blazing. "My Japanese roommate and I were ostracized." She left the university, spent a year learning French at Grenoble and then went to Paris, where, in 1958, she was graduated with a journalism degree from the Ecole Supérieure de Journalisme. But her role as a journalist — essentially that of an observer — was quickly infused with her desire to be a participant.

She was married to a French doctor at the age of 21. Huston became a medical social worker in a Moslem Algerian village in 1960 and 1961, teaching basic nutrition, hygiene and child care to peasant refugees while her husband was serving as an army conscript there. Her report from the village, published in The New York Times Magazine io 1961, described the tragedy of uprooted families during years of civil war.

During the 1960s she was a free-lance reporter in Europe and a Life magazine reporter io Paris.

Her second husband was also a French physician. At his hospital in Saigon, she raised money for yet another cause. "There were 200,000 polio victims in Vietnam because of the mobile populatioo and the lack of immunization," she said. "My husband and I set up a little foundation, and collected polio-stricken children off the streets. Many of them were the children of American soldiers and Vietnamese women. They were abandoned and became beggars."

Huston returned to the United States in the early 1970s. From 1978 until this year, she was a regional director in the Peace Corps.

Now she has started "a year of serenity" as scholar-in-residence at Wheaton College in Norton, Mass. Her son, Pierre, 8 years old, has already become the "little cheri" of the all-woman campus, she said. Her daughter Francoise, 23, is studying at the Sorbonne in Paris. Jenny, 20, is at Mills College in California.

Pampered Americans

Huston is not easy on American women. She says most other women around the world with whom she has talked, be they poor peasants or educated city wives, view American women as pampered and wasteful.

But she sees hope io a rising generation of women leaders at home and abroad. She thinks also of the spirit of Sophia, 35, a Zapotec Indian in the far south of Mexico. While Sophia rolled tortillas for the family dinner, the two women talked about change, Sophia's life and aspirations. She asked Sophia whom she would prefer to send to school — her sons or her daughters.

"My daughters, of course," Sophia answered. "Why?" asked Huston. "Because women bear the children — and thus prepare the future," Sophia said. "If women are ignorant, how can the future be good?"

Sara Krulwich, The New York Times

Huston on contraception: "Men are scared to death."

PEOPLE: *Chess Champ Karpov Gets Order of Lenin*

World chess champion Anatoly Karpov has been awarded the Order of Lenin, the Soviet Union's highest civilian honor, Tass said. The grandmaster, who beat Soviet exile Viktor Korchnoi in Merano, Italy, last week to retain his title for another three years, had been honored for his "outstanding accomplishments in chess." The award was also for his "big creative contribution to the Soviet school of chess and for his beneficial social activity." Karpov has travelled widely in the Soviet Union helping children develop their chess. Karpov, 30, was awarded the Red Banner of Labor after he beat Korchnoi in their 1978 championship match in the Philippines.

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Raoul Wallenberg, a Swedish diplomat who vanished 36 years ago, was the absent guest of honor at a tribute in Los Angeles to focus attention on a movement to find out what became of him. Actor Jon Voight, who will star in a movie on Wallenberg's life, urged an audience of about 1,200 to push for a U.S. appeal to the Soviet Union "to either release this innocent man or tell his family the truth about his fate." Wallenberg is credited with saving thousands of Hungarian Jews destined for extermination by the Nazis in the waning days of World War II. The diplomat, a non-Jew, was last seen in 1945, apparently under arrest by Russian forces during the liberation of Budapest. Soviet officials have maintained that he died in a Soviet prison in 1947, but there have been reports by prison camp survivors that he may still be alive in a Soviet camp. Simon Wiesenthal, the Nazi hunter who flew from his home in Vienna to attend the $500-a-plate dinner, said he is focusing most of his current work on the Wallenberg case. Wallenberg's sister, Nina Lagergren, accepted a humanitarian award for her missing brother. Among those on hand were show-business celebrities Barbra Streisand, Red Buttons, Milton Berle, Dinah Shore, June Lockhart and Joel Grey.

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Prince Charles, who married in July and expects to be a father next June, has sold his steeplechase horse Good Prospect because he will not have time to ride this season, royal racehorse trainer Nick Gaselee said. The trainer and Buckingham Palace denied a report that the 33-year-old heir to the throne has given up riding because of family fears for his safety. "When time and commitments permit, he will be back," said Gaselee. The prince suffered two heavy falls from Good Prospect last March. . . . The portrait of Diana, Princess of Wales will be unveiled again in the National Portrait Gallery Thursday, three months after a student from Northern Ireland slashed the painting with a knife. Art restorers John Bull and Peter Newman spent three months repairing the damage. Artist Bryan Organ was commissioned to paint Lady Diana Spencer's portrait after her engagement to Prince Charles in February. The portrait was unveiled at the gallery July 23, six days before the royal wedding. On Aug. 29, Peter Salmon, 20, from Belfast, slashed the painting with a knife, causing a 6-inch cut along the side of the seated figure. Salmon was sentenced to six months in jail and ordered to pay £1,000 (about $1,850) for restoration costs.

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Composer-conductor Leonard Bernstein said adieu to Paris and took off for New York with two loaves of French bread tucked under his arm — and a music score that had been stolen by an admiring fan. Bernstein's annotated score of a symphony by Belgian composer César Franck disappeared after he took his final curtain call Sunday with the Orchestre National de France. After Bernstein said he desperately needed the music to conduct in the United States on Friday, radio and television broadcasts urged the thief to return the score. The admirer, who said he never intended to hurt his idol, contacted Radio France and agreed to hand over the music before Bernstein's plane departed. . . . Conductor Zubin Mehta says the renowned Austrian orchestra leader Karl Böhm told him two years ago, in a New York hotel room, that he planned to bequeath Mehta a ring honoring another eminent conductor. And on Sunday, in a ceremony at Vienna's Musikverein concert hall, the bequest that Böhm made in his will was granted — the Arthur Nikisch ring changed hands. Böhm, considered among the world's foremost conductors, died Aug. 14 in Salzburg at age 86. Böhm's son, Karlheinz, presented the ring to Mehta during a brief festive event organized by the Vienna Philharmonic Orchestra, which Böhm conducted frequently for more than 40 years and which has often worked with Mehta, conductor of the New York and the Israeli philharmonic orchestras.